

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2017
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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

| | |
|--|---------|
| Independent Auditor’s Report | 1 – 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 4 |
| Statement of Activities | 5 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Fund | 6 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund | 7 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Fund with the Statement of Activities | 8 |
| Statement of Net Position - Proprietary Funds | 9 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds | 10 |
| Statement of Cash Flows - Proprietary Funds | 11 |
| Notes to Financial Statements | 12 – 29 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule - General Fund | 30 |
| Notes to Budgetary Comparison Schedule | 31 |
| Schedule of the City’s Proportionate Share of the Net Pension Liability | 32 |
| Schedule of City Pension Contributions | 33 |
| Notes to Pension Schedules | 34 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 35 – 36 |
| Schedule of Findings and Responses | 37 – 38 |
| Management Letter | 39 – 40 |



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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, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2017, 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.

Basis for Qualified Opinions

We were not able to perform sufficient tests and procedures on the City's customer meter deposits in the business-type activities and the Operations & Maintenance (O&M) Fund. Accordingly, it was not practicable to quantify any potential financial effects.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying value of the City's customer meter deposits, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the O&M Fund of the City of Hardinsburg, Kentucky as of June 30, 2017, and the 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund other than the O&M Fund, of the City of Hardinsburg, Kentucky as of June 30, 2017, 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 and related notes 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 September 10, 2018 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

September 10, 2018

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| <u>Assets</u> | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 1,346,720 | \$ 992,448 | \$ 2,339,168 |
| Investments | - | 119,812 | 119,812 |
| Receivables, net: | | | |
| Accounts - trade | - | 358,196 | 358,196 |
| Franchise fees | 4,145 | - | 4,145 |
| Miscellaneous | 8,874 | 7,196 | 16,070 |
| Taxes | 70,404 | - | 70,404 |
| Intergovernmental | 8,358 | - | 8,358 |
| Due from other funds | 376,026 | - | 376,026 |
| Prepaid expenses | 13,852 | 5,802 | 19,654 |
| Total Current Assets | 1,828,379 | 1,483,454 | 3,311,833 |
| Noncurrent Assets | | | |
| Restricted cash | - | 1,573,538 | 1,573,538 |
| Capital assets: | | | |
| Land and construction in process | 338,495 | 1,341,113 | 1,679,608 |
| Other capital assets, net of depreciation | 1,534,551 | 35,418,385 | 36,952,936 |
| Total Noncurrent Assets | 1,873,046 | 38,333,036 | 40,206,082 |
| Total Assets | 3,701,425 | 39,816,490 | 43,517,915 |
| <u>Deferred Outflows of Resources</u> | | | |
| Deferred amount on debt refundings | - | 13,352 | 13,352 |
| Deferred amounts related to pensions | 210,908 | 85,746 | 296,654 |
| Total Deferred Outflows of Resources | 210,908 | 99,098 | 310,006 |
| <u>Liabilities</u> | | | |
| Current Liabilities | | | |
| Accounts payable | 181,648 | 59,731 | 241,379 |
| Due on construction contracts | - | 240,182 | 240,182 |
| Due to other funds | - | 376,026 | 376,026 |
| Accrued expenses | - | 8,621 | 8,621 |
| Interest payable | - | 74,093 | 74,093 |
| Accrued vacation and payroll | 12,817 | 13,625 | 26,442 |
| Due to employees | 474 | - | 474 |
| Unearned revenue | - | 44,620 | 44,620 |
| Bonds and loans payable | - | 1,051,564 | 1,051,564 |
| Total Current Liabilities | 194,939 | 1,868,462 | 2,063,401 |
| Noncurrent Liabilities | | | |
| Customer deposits payable | - | 262,665 | 262,665 |
| Due to Greenshore customers | - | 24,950 | 24,950 |
| Loans payable | - | 9,759,270 | 9,759,270 |
| Revenue bonds payable | - | 11,334,546 | 11,334,546 |
| Net pension liability | 629,384 | 365,051 | 994,435 |
| Total Noncurrent Liabilities | 629,384 | 21,746,482 | 22,375,866 |
| Total Liabilities | 824,323 | 23,614,944 | 24,439,267 |
| <u>Deferred Inflows of Resources</u> | | | |
| Deferred amounts related to pensions | 38,744 | 41,006 | 79,750 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | 1,873,046 | 14,597,414 | 16,470,460 |
| Restricted for capital and debt service | - | 1,430,685 | 1,430,685 |
| Unrestricted | 1,176,220 | 231,539 | 1,407,759 |
| Total Net Position | \$ 3,049,266 | \$ 16,259,638 | \$ 19,308,904 |

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)/Revenue and Changes in Net Position</u> | | |
|---|---------------------|-----------------------------|---|---|--|---------------------------------|----------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| <u>Governmental Activities</u> | | | | | | | |
| General government | \$ 245,043 | \$ - | \$ 5,564 | \$ - | \$ (239,479) | \$ - | \$ (239,479) |
| Streets and maintenance | 180,112 | - | - | 82,542 | (97,570) | - | (97,570) |
| Police department | 431,807 | 1,698 | 29,273 | - | (400,836) | - | (400,836) |
| Fire department | 239,362 | 58,567 | 16,558 | 29,150 | (135,087) | - | (135,087) |
| Total Governmental Activities | 1,096,324 | 60,265 | 51,395 | 111,692 | (872,972) | - | (872,972) |
| <u>Business-Type Activities</u> | | | | | | | |
| Water | 3,518,822 | 3,251,530 | - | 185,851 | - | (81,441) | (81,441) |
| Sewer | 459,618 | 436,601 | - | 289,526 | - | 266,509 | 266,509 |
| Sanitation | 387,649 | 334,646 | - | - | - | (53,003) | (53,003) |
| Total Business-Type Activities | 4,366,089 | 4,022,777 | - | 475,377 | - | 132,065 | 132,065 |
| Total Primary Government | \$ 5,462,413 | \$ 4,083,042 | \$ 51,395 | \$ 587,069 | \$ (872,972) | \$ 132,065 | \$ (740,907) |
| <u>General Revenues</u> | | | | | | | |
| Property taxes | | | | | \$ 496,327 | \$ - | \$ 496,327 |
| Insurance premium taxes | | | | | 260,704 | - | 260,704 |
| Franchise fees | | | | | 42,262 | - | 42,262 |
| Licenses and permits | | | | | 46,722 | - | 46,722 |
| Interest income | | | | | 3,675 | 28,882 | 32,557 |
| Miscellaneous | | | | | 46,845 | 81,770 | 128,615 |
| Disposal of fixed assets | | | | | (24,328) | 6,865 | (17,463) |
| Total | | | | | 872,207 | 117,517 | 989,724 |
| Changes in Net Position | | | | | (765) | 249,582 | 248,817 |
| Net Position - Beginning of Year | | | | | 3,050,031 | 16,010,056 | 19,060,087 |
| Net Position - End of Year | | | | | \$ 3,049,266 | \$ 16,259,638 | \$ 19,308,904 |

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017**

| | General Fund |
|---|-------------------------|
| <u>Assets</u> | |
| Cash and cash equivalents | \$ 1,346,720 |
| Receivables, net: | |
| Franchise fees | 4,145 |
| Miscellaneous | 8,874 |
| Taxes | 70,404 |
| Intergovernmental | 8,358 |
| Prepaid expenses | 13,852 |
| Due from other funds | 376,026 |
| Total Assets | \$ 1,828,379 |
| <u>Liabilities</u> | |
| Accounts payable | \$ 181,648 |
| Accrued payroll | 6,445 |
| Due to employees | 474 |
| Total Liabilities | 188,567 |
| <u>Fund Balance</u> | |
| Nonspendable | 13,852 |
| Restricted | 14,319 |
| Assigned | 108,782 |
| Unassigned | 1,502,859 |
| Total Fund Balance | 1,639,812 |
| Total Liabilities and Fund Balance | \$ 1,828,379 |

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

| | | |
|---|-----------|---------------------|
| Total Governmental Fund Balance | | \$ 1,639,812 |
| 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. | | 1,873,046 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not reported in the governmental funds. | | 172,164 |
| Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund. | | |
| Accrued sick leave | (6,372) | |
| Net pension liability | (629,384) | |
| | (635,756) | |
| Total Net Position of Governmental Activities | | \$ 3,049,266 |

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, 2017

| | General Fund |
|--|-------------------------|
| <u>Revenues</u> | |
| Property taxes | \$ 496,327 |
| Insurance premium taxes | 260,704 |
| Licenses and permits | 46,722 |
| Rental income | 17,585 |
| Interest income | 3,675 |
| Miscellaneous | 12,413 |
| Donations | 16,983 |
| Franchise fees | 42,262 |
| Fire department subscription fees | 57,792 |
| Intergovernmental revenues | 146,104 |
| Total Revenues | 1,100,567 |
| <u>Expenditures</u> | |
| Current: | |
| General government: | |
| Salaries and benefits | 61,789 |
| Administrative travel | 4,575 |
| Utilities | 19,641 |
| Insurance | 4,359 |
| Industrial development | 2,500 |
| Office expense | 3,903 |
| Advertising and printing | 1,901 |
| Professional fees | 12,150 |
| Repairs and maintenance | 4,811 |
| Supplies | 4,398 |
| Miscellaneous | 1,633 |
| Police department | 405,717 |
| Fire department | 116,071 |
| Streets and maintenance | 174,328 |
| Capital outlay | 312,642 |
| Total Expenditures | 1,130,418 |
| Excess (Deficiency) of Revenues Over Expenditures | (29,851) |
| <u>Other Financing Sources</u> | |
| Proceeds from sale of fixed assets | 11,994 |
| Insurance recoveries - impaired assets | 19,320 |
| Total Other Financing Sources | 31,314 |
| Net Changes in Fund Balance | 1,463 |
| Fund Balance - Beginning of Year | 1,638,349 |
| Fund Balance - End of Year | \$ 1,639,812 |

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, 2017**

Net Changes in Fund Balance - Governmental Fund \$ 1,463

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 capital outlay exceeded depreciation in the current period. 41,022

The governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the book value of the disposed assets. (36,322)

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 | 46,939 | |
| Pension expense | <u>(52,642)</u> | (5,703) |

In the Statement of Activities, vacation leave is measured by the amount earned during the year. In the governmental fund, however, expenditures for this item are measured by the amount actually paid. (1,225)

Changes in Net Position of Governmental Activities \$ (765)

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

| | Enterprise Funds | | | Total |
|---|--|----------------------------------|------------------------|----------------------|
| | Operations & Maintenance Fund | Wastewater Treatment Fund | Sanitation Fund | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 560,189 | \$ 154,298 | \$ 277,961 | \$ 992,448 |
| Investments | 80,546 | 32,209 | 7,057 | 119,812 |
| Receivables, net: | | | | |
| Accounts - trade | 285,659 | 42,491 | 30,046 | 358,196 |
| Miscellaneous | 4,396 | 1,441 | 1,359 | 7,196 |
| Due from other funds | - | 7,066 | 2,287 | 9,353 |
| Prepaid expenses | 3,656 | 1,073 | 1,073 | 5,802 |
| Total Current Assets | 934,446 | 238,578 | 319,783 | 1,492,807 |
| Noncurrent Assets | | | | |
| Restricted cash | 1,511,507 | 62,031 | - | 1,573,538 |
| Capital assets: | | | | |
| Land and construction in process | 137,500 | 1,203,613 | - | 1,341,113 |
| Other capital assets, net of depreciation | 32,884,293 | 2,293,557 | 240,535 | 35,418,385 |
| Total Noncurrent Assets | 34,533,300 | 3,559,201 | 240,535 | 38,333,036 |
| Total Assets | 35,467,746 | 3,797,779 | 560,318 | 39,825,843 |
| Deferred Outflows of Resources | | | | |
| Deferred amount on debt refundings | 9,368 | 3,984 | - | 13,352 |
| Deferred amounts related to pensions | 65,507 | 9,009 | 11,230 | 85,746 |
| Total Deferred Outflows of Resources | 74,875 | 12,993 | 11,230 | 99,098 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | 45,526 | 3,937 | 10,268 | 59,731 |
| Due on construction contracts | - | 240,182 | - | 240,182 |
| Due to other funds | 385,379 | - | - | 385,379 |
| Accrued expenses | 8,621 | - | - | 8,621 |
| Interest payable | 65,480 | 8,613 | - | 74,093 |
| Accrued vacation and payroll | 10,421 | 1,370 | 1,834 | 13,625 |
| Unearned revenue | 44,620 | - | - | 44,620 |
| Bonds and loans payable | 932,149 | 104,415 | 15,000 | 1,051,564 |
| Total Current Liabilities | 1,492,196 | 358,517 | 27,102 | 1,877,815 |
| Noncurrent Liabilities | | | | |
| Customer deposits payable | 262,665 | - | - | 262,665 |
| Due to Greenshore customers | 24,950 | - | - | 24,950 |
| Loans payable | 8,651,773 | 1,107,497 | - | 9,759,270 |
| Revenue bonds payable | 10,828,128 | 456,418 | 50,000 | 11,334,546 |
| Net pension liability | 281,281 | 38,316 | 45,454 | 365,051 |
| Total Noncurrent Liabilities | 20,048,797 | 1,602,231 | 95,454 | 21,746,482 |
| Total Liabilities | 21,540,993 | 1,960,748 | 122,556 | 23,624,297 |
| Deferred Inflows of Resources | | | | |
| Deferred amounts related to pensions | 31,596 | 4,304 | 5,106 | 41,006 |
| Net Position | | | | |
| Net investment in capital assets | 12,594,161 | 1,832,824 | 170,429 | 14,597,414 |
| Restricted for capital and debt service | 1,329,388 | 94,240 | 7,057 | 1,430,685 |
| Unrestricted | 46,483 | (81,344) | 266,400 | 231,539 |
| Total Net Position | \$ 13,970,032 | \$ 1,845,720 | \$ 443,886 | \$ 16,259,638 |

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, 2017

| | Enterprise Funds | | | Total |
|---|--|----------------------------------|------------------------|----------------------|
| | Operations & Maintenance Fund | Wastewater Treatment Fund | Sanitation Fund | |
| <u>Operating Revenues</u> | | | | |
| Charges for services | \$ 3,090,590 | \$ 430,686 | \$ 331,350 | \$ 3,852,626 |
| Penalty charges | 39,676 | 5,015 | 3,296 | 47,987 |
| Connection fees | 121,264 | 900 | - | 122,164 |
| Total Operating Revenues | 3,251,530 | 436,601 | 334,646 | 4,022,777 |
| <u>Operating Expenses</u> | | | | |
| Salaries and benefits | 255,050 | 38,597 | 48,047 | 341,694 |
| Maintenance and supplies | 46,286 | 22,511 | 3,892 | 72,689 |
| Chemicals | 33,525 | - | - | 33,525 |
| Contract operations | 1,045,379 | 148,055 | 203,929 | 1,397,363 |
| Professional fees | 7,700 | 2,182 | 1,125 | 11,007 |
| Office and advertising | 34,044 | 12,179 | 11,862 | 58,085 |
| Landfill fees | - | - | 70,278 | 70,278 |
| Depreciation | 1,142,037 | 139,561 | 34,604 | 1,316,202 |
| Rental expense | 5,850 | 3,575 | 5,050 | 14,475 |
| Insurance | 33,089 | 10,765 | 2,548 | 46,402 |
| Utilities | 336,817 | 56,077 | 1,572 | 394,466 |
| Miscellaneous | 1,426 | 61 | 2,382 | 3,869 |
| Total Operating Expenses | 2,941,203 | 433,563 | 385,289 | 3,760,055 |
| Operating Income (Loss) | 310,327 | 3,038 | (50,643) | 262,722 |
| <u>Non-Operating Revenues (Expenses)</u> | | | | |
| Interest income | 25,570 | 2,839 | 473 | 28,882 |
| Rental income | 50,965 | - | - | 50,965 |
| Other income | 14,241 | 8,161 | 1,503 | 23,905 |
| Gain on disposal of fixed assets | 6,135 | - | 730 | 6,865 |
| Debt service repayments | 25,160 | - | - | 25,160 |
| Insurance recoveries - impaired assets | 6,900 | - | - | 6,900 |
| Interest expense | (577,619) | (26,055) | (2,360) | (606,034) |
| Total Non-Operating Revenues (Expenses) | (448,648) | (15,055) | 346 | (463,357) |
| Income (Loss) Before Capital Contributions and Transfers | (138,321) | (12,017) | (50,297) | (200,635) |
| Capital Contributions | 160,691 | 289,526 | - | 450,217 |
| Transfers | 6,505 | (6,505) | - | - |
| Changes in Net Position | 28,875 | 271,004 | (50,297) | 249,582 |
| Net Position - Beginning of Year | 13,941,157 | 1,574,716 | 494,183 | 16,010,056 |
| Net Position - End of Year | \$ 13,970,032 | \$ 1,845,720 | \$ 443,886 | \$ 16,259,638 |

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, 2017

| | Enterprise Funds | | | Total |
|--|--|----------------------------------|------------------------|---------------------|
| | Operations & Maintenance Fund | Wastewater Treatment Fund | Sanitation Fund | |
| <u>Cash Flows from Operating Activities:</u> | | | | |
| Cash received from customers and others | \$ 3,248,956 | \$ 424,717 | \$ 330,586 | \$ 4,004,259 |
| Cash payments to suppliers for goods and services | (1,539,545) | (258,816) | (292,893) | (2,091,254) |
| Cash payments to employees for services | (219,620) | (34,387) | (43,629) | (297,636) |
| Net Cash Provided (Used) by Operating Activities | 1,489,791 | 131,514 | (5,936) | 1,615,369 |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | | | | |
| Acquisition and construction of capital assets | (129,017) | (839,680) | (28,778) | (997,475) |
| Proceeds from sale of capital assets | 6,135 | - | 730 | 6,865 |
| Capital contributions | 3,369 | 289,526 | - | 292,895 |
| Payment on Greenshore liability | (420) | - | - | (420) |
| Insurance recoveries | 6,900 | - | - | 6,900 |
| Proceeds from debt | - | 537,239 | - | 537,239 |
| Principal paid on debt | (1,115,641) | (79,030) | (20,882) | (1,215,553) |
| Interest paid on debt | (563,982) | (26,032) | (2,360) | (592,374) |
| Net Cash Used by Capital and Related Financing Activities | (1,792,656) | (117,977) | (51,290) | (1,961,923) |
| <u>Cash Flows from Noncapital Financing Activities:</u> | | | | |
| Interfund loans | - | (2,347) | - | (2,347) |
| Net Cash Used by Noncapital Financing Activities | - | (2,347) | - | (2,347) |
| <u>Cash Flows from Investing Activities:</u> | | | | |
| Interest income | 25,323 | 459 | 473 | 26,255 |
| Other non-operating income and expenses | 90,366 | 8,161 | 1,503 | 100,030 |
| Net Cash Provided by Investing Activities | 115,689 | 8,620 | 1,976 | 126,285 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (187,176) | 19,810 | (55,250) | (222,616) |
| Cash and Cash Equivalents - Beginning of Year | 2,339,418 | 228,728 | 340,268 | 2,908,414 |
| Cash and Cash Equivalents - End of Year | \$ 2,152,242 | \$ 248,538 | \$ 285,018 | \$ 2,685,798 |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u> | | | | |
| Operating income (loss) | \$ 310,327 | \$ 3,038 | \$ (50,643) | \$ 262,722 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 1,142,037 | 139,561 | 34,604 | 1,316,202 |
| Change in assets and liabilities: | | | | |
| Receivables, net | (27,422) | (7,165) | (1,773) | (36,360) |
| Due from other funds | - | (4,719) | (2,287) | (7,006) |
| Prepaid expenses | (1,196) | (371) | 3,146 | 1,579 |
| Deferred outflows related to pensions | (14,829) | (2,044) | (2,952) | (19,825) |
| Accounts payable | 5,649 | (2,794) | 6,891 | 9,746 |
| Due to other funds | 9,352 | - | - | 9,352 |
| Accrued expenses | (2,229) | (246) | (292) | (2,767) |
| Other liabilities | 17,209 | (204) | (171) | 16,834 |
| Net pension liability | 19,297 | 2,154 | 2,435 | 23,886 |
| Deferred inflows related to pensions | 31,596 | 4,304 | 5,106 | 41,006 |
| Total Adjustments | 1,179,464 | 128,476 | 44,707 | 1,352,647 |
| Net Cash Provided (Used) by Operating Activities | \$ 1,489,791 | \$ 131,514 | \$ (5,936) | \$ 1,615,369 |
| <u>Schedule of Noncash Transactions:</u> | | | | |
| Donated capital assets | \$ 160,221 | \$ - | \$ - | \$ 160,221 |

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, 2017**

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, 2017**

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, 2017**

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 \$26,220 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, 2017, the allowances for uncollectible trade and property tax receivables were \$16,914 and \$11,859, 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

The City classifies net position in three categories. 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, 2017**

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, 2017**

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 \$.312 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, 2017**

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, 2017, the reported amount of the City's cash and cash equivalents was \$3,912,706 and the bank balance was \$3,936,314. 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, but not in the City's name. The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

Short-Term Investments

The City transfers monthly amounts for bond principal and interest payments into common trust funds, which consist entirely of federated treasury obligations. The City does not have an investment policy for custodial credit risk. Regarding credit risk, \$7,057 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 \$112,755 is uninsured and unregistered. Both the carrying amount and fair market value of the investments were \$119,812 at year-end, and the balance is subject to investment risks, including possible loss of principal.

Restricted Cash

Cash is restricted for various legal requirements, such as sinking and reserve accounts, as established by bond ordinances or loan agreements and may be expended only for disbursements allowed under the terms of such. Other cash accounts are reserved for specific projects and customer deposits, and the federated treasury obligations (investments) are restricted for bond principal and interest payments.

Reconciliation of Cash

For purposes of the Statement of Cash Flows on page 11, cash and cash equivalents as of June 30, 2017 consisted of the following:

| | O&M Fund | WWT Fund | Sanitation Fund | Total |
|-----------------|--------------------|------------------|--------------------|--------------------|
| Cash | \$ 560,189 | \$154,298 | \$277,961 | \$ 992,448 |
| Restricted cash | 1,511,507 | 62,031 | - | 1,573,538 |
| Investments | 80,546 | 32,209 | 7,057 | 119,812 |
| Total | <u>\$2,152,242</u> | <u>\$248,538</u> | <u>\$285,018</u> | <u>\$2,685,798</u> |

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017 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 | \$4,147,000 |
| 2006B | 1/1/06 | 4.125% | 6/1/45 | \$2,660,000 | \$2,303,000 |
| 2009 | 10/1/09 | 3.375% | 6/1/48 | \$1,350,000 | \$1,216,700 |
| 2011 | 11/1/11 | 3% | 6/1/50 | \$2,000,000 | \$1,846,500 |
| 2012 | 7/31/12 | 2% | 2/1/21 | \$ 140,000 | \$ 65,000 |
| 2015 (R) | 5/12/15 | 2.1% to 4.1% | 1/1/33 | \$2,395,000 | \$2,020,000 |

R – Denotes refunding bond issue

Loans Payable

On April 1, 1989, the City of Hardinsburg entered into a loan agreement with the Kentucky Infrastructure Authority (KIA) for \$449,000. On July 29, 2004, the remaining balance of \$358,742 was refinanced using \$57,799 in a reserve account, supplemented with a deferred gain from other pooled reserves of \$50,943, to reduce the new liability to \$250,000. The City recognized \$109,131 as a gain from principal forgiveness and used Sinking Fund reserves of \$140,869 to extinguish the debt at year-end.

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 \$14,581.

For the fiscal year ended June 30, 2002, the City borrowed \$146,260 from KIA to finance transfer station improvements. The loan was repayable in thirty semi-annual payments of \$5,961, which included interest at 2.7%, and the balance was paid at year-end.

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 \$155,804.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE D - LONG-TERM DEBT (CONTINUED)

Loans Payable (Concluded)

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 \$2,419,817.

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 \$1,344,396.

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 \$2,125,523.

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 \$422,297. 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 \$212,376.

In 2013, the City secured a loan in the amount of \$3,250,606 from KIA for water line expansion projects. 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 \$2,685,404.

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 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 \$552,997.

During the year ended June 30, 2017, the City secured a \$1.28 million loan from KIA for phosphorus removal and effluent monitoring. The City has drawn \$537,239 to date. Once the loan is finalized, it calls for forty semi-annual payments, including interest at .75%, and ten annual transfers to the replacement and maintenance reserve account at an amount to be determined.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE D - LONG-TERM DEBT (CONCLUDED)

Debt Service Requirements

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2017, including interest payments are as follows:

| Fiscal Year Ending June 30, | Business-Type Activities | | | |
|--------------------------------|---------------------------------|--------------------|---------------------|------------------|
| | Bonds Payable | | Loans Payable | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 340,400 | \$ 437,241 | \$ 711,164 | \$101,456 |
| 2019 | 353,200 | 424,058 | 718,396 | 94,226 |
| 2020 | 370,000 | 410,366 | 718,279 | 86,943 |
| 2021 | 387,900 | 399,200 | 725,572 | 79,650 |
| 2022 | 385,700 | 383,734 | 732,941 | 72,281 |
| 2023 - 2027 | 2,141,700 | 1,680,559 | 3,638,560 | 253,086 |
| 2028 - 2032 | 1,654,200 | 1,324,192 | 2,465,490 | 95,084 |
| 2033 - 2037 | 1,790,400 | 994,475 | 760,032 | 10,884 |
| 2038 - 2042 | 2,108,000 | 628,942 | - | - |
| 2043 - 2047 | 1,751,300 | 203,640 | - | - |
| 2048 - 2050 | 315,400 | 17,466 | - | - |
| Totals | <u>\$11,598,200</u> | <u>\$6,903,873</u> | <u>\$10,470,434</u> | <u>\$793,610</u> |

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2017 were as follows:

| | Balance July 1, 2016 | Additions | Reductions | Balance June 30, 2017 | Due In One Year |
|--|-------------------------|------------------|--------------------|--------------------------|--------------------|
| <u>Governmental Activities</u> | | | | | |
| Net pension liability | \$ 525,381 | \$ 142,154 | \$ 38,151 | \$ 629,384 | \$ 46,939 |
| <u>Business-Type Activities</u> | | | | | |
| Bonds payable | \$11,987,800 | \$ - | \$ 389,600 | \$11,598,200 | \$ 340,400 |
| Loans payable | 10,868,279 | 537,239 | 935,084 | 10,470,434 | 711,164 |
| Premium | 82,585 | - | 5,839 | 76,746 | 5,838 |
| Net bonds and loans payable | 22,938,664 | 537,239 | 1,330,523 | 22,145,380 | 1,057,402 |
| Net pension liability | 341,165 | 44,950 | 21,064 | 365,051 | 27,403 |
| Customer deposits | 248,670 | 84,750 | 70,755 | 262,665 | - |
| Due to Greenshore | 25,369 | - | 419 | 24,950 | - |
| | <u>\$23,553,868</u> | <u>\$666,939</u> | <u>\$1,422,761</u> | <u>\$22,798,046</u> | <u>\$1,084,805</u> |

The Enterprise Funds are primarily responsible for paying bond and loan obligations.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE E - FUND BALANCE

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

| Fund Balance | General Fund |
|------------------------|--------------|
| Nonspendable: | |
| Prepaid expenses | \$ 13,852 |
| Restricted: | |
| Road aid | 9,581 |
| Drug enforcement | 4,738 |
| Total Restricted | 14,319 |
| Assigned: | |
| Industrial development | 103,240 |
| Fire department | 5,542 |
| Total Assigned | 108,782 |
| Unassigned | 1,502,859 |
| Total Fund Balance | \$1,639,812 |

NOTE F - UNEARNED REVENUE

The City has two five-year tower lease agreements, for which it receives annual rent in advance of the term of the lease. Accordingly, \$44,620 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, Governmental Activities and the Sanitation Fund had operations that resulted in current year reductions of net position.

NOTE H - INTERFUND ACTIVITY

The WWT Fund transferred \$6,505 to the O&M 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 | 7,066 | Utility sales |
| O&M Fund | Sanitation Fund | 2,287 | Utility sales |

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE J - PENSION PLANS

General Information about the County Employees Retirement System

Plan Description – Full-time employees are covered by the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the website at www.kyret.ky.gov.

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

CERS Non-Hazardous

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

CERS Hazardous

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

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 18.68% (13.95% pension; 4.73% insurance) and 31.06% (21.71% pension; 9.35% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2017.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE J - 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, 2017, the City reported a liability of \$994,435 for its proportionate share of the net pension liability for CERS, which included \$524,876 for non-hazardous and \$469,559 for hazardous. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016. At June 30, 2016, the City’s proportion was 0.01066% non-hazardous and 0.02736% hazardous, a decrease of 0.0022% and increase of 0.00693%, respectively, over the prior year.

For the year ended June 30, 2017, the City recognized total pension expense of \$125,113 for CERS, which included \$49,994 for non-hazardous and \$75,119 for hazardous.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 9,063 | \$ - |
| Changes of assumptions | 54,750 | - |
| Net difference between projected and actual earnings on pension plan investments | 88,956 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 69,543 | 79,750 |
| City contributions subsequent to the measurement date | 74,342 | - |
| | \$296,654 | \$79,750 |

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE J - PENSION PLANS (CONTINUED)

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

\$74,342 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, 2018. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Amount |
|-------------------------|----------|
| 2018 | \$49,058 |
| 2019 | 37,850 |
| 2020 | 35,855 |
| 2021 | 19,799 |

Actuarial assumptions – The total pension liability in the June 30, 2016 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, 2016 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, 2017**

NOTE J - 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 2008 through 2013, is outlined in a report dated December 3, 2015. 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 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-seven 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, 2017**

NOTE J - 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 | \$654,080 | \$524,876 | \$414,122 |
| Hazardous | \$589,903 | \$469,559 | \$370,296 |

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 K - 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 L - COMMITMENTS UNDER LEASES

The City incurred \$2,665 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, 2017 as follows:

| Year Ending June 30, | Future Payments |
|-------------------------|--------------------|
| 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, 2017**

NOTE M - CAPITAL ASSETS

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

| | July 1, 2016 | Additions | Deletions | June 30, 2017 |
|--|---------------------|--------------------|--------------------|---------------------|
| <u>Governmental Activities</u> | | | | |
| Not Depreciated: | | | | |
| Land | \$ 295,145 | \$ - | \$ - | \$ 295,145 |
| Construction in process | 24,500 | 18,850 | - | 43,350 |
| Subtotal | <u>319,645</u> | <u>18,850</u> | <u>-</u> | <u>338,495</u> |
| Depreciated: | | | | |
| Buildings and improvements | 885,200 | 8,184 | - | 893,384 |
| Furniture and fixtures | 65,457 | 5,353 | - | 70,810 |
| Equipment | 664,143 | 48,580 | (42,043) | 670,680 |
| Vehicles | 1,016,203 | 95,759 | (64,557) | 1,047,405 |
| Parks | 157,145 | - | - | 157,145 |
| Infrastructure | 1,201,044 | 135,916 | - | 1,336,960 |
| Subtotal | <u>3,989,192</u> | <u>293,792</u> | <u>(106,600)</u> | <u>4,176,384</u> |
| Accumulated Depreciation | <u>2,440,491</u> | <u>271,620</u> | <u>(70,278)</u> | <u>2,641,833</u> |
| Net Capital Assets | <u>\$ 1,868,346</u> | <u>\$ 41,022</u> | <u>\$ (36,322)</u> | <u>\$ 1,873,046</u> |
| <u>Business-Type Activities</u> | | | | |
| Not Depreciated: | | | | |
| Land | \$ 275,161 | \$ - | \$ - | \$ 275,161 |
| Construction in process | 3,070 | 1,062,882 | - | 1,065,952 |
| Subtotal | <u>278,231</u> | <u>1,062,882</u> | <u>-</u> | <u>1,341,113</u> |
| Depreciated: | | | | |
| Buildings and improvements | 304,083 | 7,042 | - | 311,125 |
| Equipment | 966,028 | 67,339 | (36,533) | 996,834 |
| Vehicles | 176,820 | - | - | 176,820 |
| Treatment plants | 15,179,908 | 52,360 | - | 15,232,268 |
| Distribution system | 27,471,690 | 78,744 | - | 27,550,434 |
| Wastewater plant | 5,026,380 | 17,480 | - | 5,043,860 |
| Subtotal | <u>49,124,909</u> | <u>222,965</u> | <u>(36,533)</u> | <u>49,311,341</u> |
| Accumulated Depreciation | <u>12,613,287</u> | <u>1,316,202</u> | <u>(36,533)</u> | <u>13,892,956</u> |
| Net Capital Assets | <u>\$36,789,853</u> | <u>\$ (30,355)</u> | <u>\$ -</u> | <u>\$36,759,498</u> |

Depreciation expense and related accumulated depreciation are detailed as follows:

| | July 1, 2016 | Additions | Deletions | June 30, 2017 |
|---------------------------------------|---------------------|-------------------|--------------------|---------------------|
| <u>Governmental Activities</u> | | | | |
| Buildings and improvements | \$ 391,260 | \$ 33,415 | \$ - | \$ 424,675 |
| Furniture and fixtures | 60,610 | 2,197 | - | 62,807 |
| Equipment | 452,638 | 41,689 | (14,721) | 479,606 |
| Vehicles | 687,698 | 93,680 | (55,557) | 725,821 |
| Parks | 85,601 | 8,051 | - | 93,652 |
| Infrastructure | 762,684 | 92,588 | - | 855,272 |
| Total | <u>\$ 2,440,491</u> | <u>\$ 271,620</u> | <u>\$ (70,278)</u> | <u>\$ 2,641,833</u> |

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE M - CAPITAL ASSETS (CONCLUDED)

| | July 1, 2016 | Additions | Deletions | June 30, 2017 |
|--|---------------------|--------------------|--------------------|---------------------|
| <u>Business-Type Activities</u> | | | | |
| Buildings and improvements | \$ 154,129 | \$ 10,300 | \$ - | \$ 164,429 |
| Equipment | 517,705 | 71,960 | (36,533) | 553,132 |
| Vehicles | 173,921 | 2,492 | - | 176,413 |
| Treatment plants | 3,443,083 | 387,349 | - | 3,830,432 |
| Distribution system | 5,687,878 | 707,703 | - | 6,395,581 |
| Wastewater plant | 2,636,571 | 136,398 | - | 2,772,969 |
| Total | <u>\$12,613,287</u> | <u>\$1,316,202</u> | <u>\$ (36,533)</u> | <u>\$13,892,956</u> |

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

| <u>Governmental Activities</u> | |
|---------------------------------------|------------------|
| General government | \$116,454 |
| Streets and maintenance | 5,785 |
| Police department | 26,090 |
| Fire department | 123,291 |
| | <u>\$271,620</u> |

NOTE N - COMMITMENTS AND CONTINGENCIES

The City receives state grants for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of city management, such disallowances, if any, will not be significant.

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.

The City has pending litigation that it considers to be meritless and is contesting vigorously. No estimate could be made as to any potential loss.

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 \$1,458,811, which included an annual repair and maintenance allowance of \$220,000. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2017-2018 is \$1,487,987, which includes an estimated repair and maintenance allowance of \$224,000.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE N - 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, 2017, the City collected \$147,190 in water revenue and \$15,587 for the construction debt service from Irvington. The debt service payment was discontinued as of May 31, 2017.

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, 2017, the City billed Cloverport \$116,290 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.

New regulations require the City to remove phosphorus at the wastewater treatment plant, which is expected to cost \$2.11 million. The City was awarded a \$1,279,500 KIA loan with interest at .75% and a \$929,000 Community Development Block Grant (CDBG) to finance the project. The project was in the construction stage at year-end, with \$1,065,452 reported as Construction in Progress. The City received \$537,239 in KIA loan proceeds and \$289,526 in CDBG funds during the fiscal year.

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 beginning stage at year-end and the City had incurred \$43,350 in expenditures to date and received \$32,400 in grant proceeds. Prior to year-end, the City approved a bid of \$403,118 for the sidewalks.

In March 2017, the City approved a bid of \$74,933 for a degasifier pump; however, the project was not started until after year-end.

NOTE O - SUBSEQUENT EVENTS

Subsequent to year-end, the City awarded a bid of \$30,250 for a water line relocation, which is to be reimbursed by the company that requested the relocation. The City also approved the purchases of a police cruiser for \$32,411, a truck for \$27,300, and a garbage truck for \$167,410. The City anticipates financing the garbage truck with a 3% bank loan.

The City also awarded a bid of \$166,950 for fire department equipment and approved a 3.89% lease agreement to finance the purchase. The fire department received a \$22,000 grant to purchase turnout gear and a \$50,000 grant to be used towards a training facility. The City accepted bids of approximately \$29,000 and \$49,000 for the turnout gear and training facility, respectively.

Pending approval from Kentucky Retirement System, the City approved changing all police officers to hazardous retirement. The change would take place in October 2018 if approved.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance from Final Budget Favorable (Unfavorable) |
|--|------------------|------------|--------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 435,475 | \$ 494,320 | \$ 496,327 | \$ 2,007 |
| Insurance premium taxes | 255,000 | 255,000 | 260,704 | 5,704 |
| Licenses and permits | 45,900 | 43,274 | 46,722 | 3,448 |
| Rental income | 17,100 | 17,035 | 17,585 | 550 |
| Interest income | 2,610 | 2,919 | 3,675 | 756 |
| Miscellaneous | 5,433 | 6,123 | 12,413 | 6,290 |
| Donations | 450 | 30,950 | 16,983 | (13,967) |
| Franchise fees | 42,312 | 44,412 | 42,262 | (2,150) |
| Fire department subscription fees | 55,000 | 56,900 | 57,792 | 892 |
| Intergovernmental revenues | 477,795 | 140,299 | 146,104 | 5,805 |
| Total Revenues | 1,337,075 | 1,091,232 | 1,100,567 | 9,335 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 143,259 | 136,128 | 121,660 | 14,468 |
| Police department | 434,511 | 419,129 | 405,717 | 13,412 |
| Fire department | 93,543 | 107,657 | 116,071 | (8,414) |
| Streets and maintenance | 151,328 | 139,675 | 174,328 | (34,653) |
| Capital outlay | 825,500 | 360,540 | 312,642 | 47,898 |
| Total Expenditures | 1,648,141 | 1,163,129 | 1,130,418 | 32,711 |
| Excess (Deficiency) of Revenues Over Expenditures | (311,066) | (71,897) | (29,851) | 42,046 |
| Other Financing Sources | | | | |
| Proceeds from sale of fixed assets | 11,500 | 11,694 | 11,994 | 300 |
| Insurance recoveries | 50 | 18,104 | 19,320 | 1,216 |
| Total Other Financing Sources | 11,550 | 29,798 | 31,314 | 1,516 |
| Net Changes in Fund Balance | (299,516) | (42,099) | 1,463 | 43,562 |
| Fund Balance - Beginning of Year | 690,000 | 691,803 | 1,647,310 | 955,507 |
| Fund Balance - End of Year | \$ 390,484 | \$ 649,704 | \$ 1,648,773 | \$ 999,069 |

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

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.

NOTE B - BUDGET VIOLATIONS

During the 2017 fiscal year, the City incurred line item expenditures in excess of budget for the fiscal year.

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

Last 10 Fiscal Years*

| <u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|
| <u>Non-Hazardous</u> | | | |
| City's proportion of the net pension liability | 0.01066% | 0.01286% | 0.01257% |
| City's proportionate share of the net pension liability | \$ 524,876 | \$ 552,942 | \$ 408,000 |
| City's covered payroll | \$ 254,305 | \$ 300,054 | \$ 288,467 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 206.40% | 184.28% | 141.44% |
| Plan fiduciary net position as a percentage of the total pension liability | 55.503% | 59.968% | 66.801% |
| <u>Hazardous</u> | | | |
| City's proportion of the net pension liability | 0.02736% | 0.02043% | 0.02310% |
| City's proportionate share of the net pension liability | \$ 469,559 | \$ 313,604 | \$ 278,000 |
| City's covered payroll | \$ 142,266 | \$ 104,496 | \$ 116,989 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 330.06% | 300.11% | 237.63% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.948% | 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*

| <u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|
| <u>Non-Hazardous</u> | | | |
| Contractually required contribution | \$ 41,476 | \$ 31,585 | \$ 38,257 |
| Contributions in relation to the contractually required contribution | <u>(41,476)</u> | <u>(31,585)</u> | <u>(38,257)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered payroll | \$ 297,320 | \$ 254,305 | \$ 300,054 |
| Contributions as a percentage of covered payroll | 13.95% | 12.42% | 12.75% |
| <u>Hazardous</u> | | | |
| Contractually required contribution | \$ 32,866 | \$ 28,823 | \$ 21,662 |
| Contributions in relation to the contractually required contribution | <u>(32,866)</u> | <u>(28,823)</u> | <u>(21,662)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered payroll | \$ 151,388 | \$ 142,266 | \$ 104,496 |
| Contributions as a percentage of covered payroll | 21.71% | 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, 2017**

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

For the valuation performed as of June 30, 2016, there were no changes in assumptions for CERS.

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



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CERTIFIED PUBLIC ACCOUNTANTS

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

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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, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 10, 2018.

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 deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 to 2017-003 to be material weaknesses.

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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Responses as item 2017-004.

We noted certain additional matters that we have reported to management in a separate letter dated September 10, 2018.

City of Hardinsburg, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

September 10, 2018

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Finding: 2017-001 (Repeat)

| | |
|-----------------------------|--|
| <i>Condition:</i> | The City does not have the internal control procedures required to draft financial statements and related notes in conformity with generally accepted accounting principles (GAAP). |
| <i>Criteria:</i> | The City is required to have internal controls in place that enable it to prepare financial statements, including note disclosures, in compliance with GAAP. |
| <i>Cause:</i> | The City lacks personnel with the expertise to apply GAAP in preparing its financial statements, including note disclosures. |
| <i>Effect:</i> | As part of the audit, management requested us to prepare a draft of the City's financial statements, including the related notes. Management reviewed, approved, and accepted responsibility for the financial statements and related notes prior to their issuance. |
| <i>Recommendation:</i> | We recommend that management review the costs and benefits involved to acquire the expertise to prepare the financial statements and related disclosures in compliance with GAAP. |
| <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> |

Finding: 2017-002

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|-----------------------------|---|
| <i>Condition:</i> | The City did not reconcile its bank accounts on a timely basis. |
| <i>Criteria:</i> | As the substantial portion of accounting information is the product of cash receipts and disbursements, it is essential that the bank statement be reconciled immediately after the close of each month. |
| <i>Cause:</i> | The City changed accounting software during the fiscal year and was unable to reconcile the bank accounts properly. |
| <i>Effect:</i> | Cash in bank at year-end for several accounts was understated or overstated. Accordingly, revenues, expenditures, liabilities, and other assets were reported in error. |
| <i>Recommendation:</i> | An employee with limited duties for cash transactions should be responsible for reconciling all bank accounts immediately upon receipt of the statement. |
| <i>Management Response:</i> | <i>Retired administrative assistant reconciled most accounts. She had not been trained properly by the software company. Accounts were finalized and she assumed they would balance; however, no changes could be made after finalization of a transaction.</i> |
| <i>Auditor Response:</i> | A bank reconciliation is a summary of banking and business activity that reconciles an entity's bank account with its financial records. Accounts should not be finalized if they are out of balance. The software company should have been contacted for further assistance. |

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Finding: 2017-003 (Repeat)

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|-----------------------------|---|
| <i>Condition:</i> | Material adjustments were required as part of the audit process. |
| <i>Criteria:</i> | The City is required to have internal controls in place that enable it to complete the period-end financial reporting process and identify and correct material misstatements. |
| <i>Cause:</i> | The City transitioned to new accounting software during the fiscal year. Due to lack of training and familiarity with the system, the City was unable to properly perform the financial reporting close, which resulted in material adjustments. |
| <i>Effect:</i> | Funds were out of balance, and account balances were understated or overstated. |
| <i>Recommendation:</i> | Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all material adjustments have been made. More effort should be made to properly train staff in implementing the new software. |
| <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> |

Finding: 2017-004

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|-----------------------------|---|
| <i>Condition:</i> | The City's audit report for the year ended June 30, 2017 was not completed by the due date of February 1, 2018. |
| <i>Criteria:</i> | KRS 91A.040 requires city audits to be completed by February 1 immediately following the fiscal year being audited. In addition, an electronic copy of the audit report is required to be submitted to the Department of Local Government within ten days of completion. |
| <i>Cause:</i> | Due to lack of training and familiarity with the new accounting software, the City was significantly impacted in its ability to perform the financial reporting close in a timely manner. The City was still reconciling its trial balance through April 2018, which delayed our ability to perform audit testwork. |
| <i>Effect:</i> | The City was in violation of its annual financial audit requirement. |
| <i>Recommendation:</i> | Staff should obtain any necessary training to familiarize themselves with the new accounting software in order to facilitate a timely preparation of its financial records. |
| <i>Management Response:</i> | <i>Management is aware of our lack of training with the new software. We understand now that accounts were not set up properly. More training is needed and we will make arrangements to obtain it.</i> |

MANAGEMENT LETTER



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017, 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 September 10, 2018, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated September 10, 2018, 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 (\$12,265 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. In the prior year, the City's General Fund had to transfer \$376,026 to cover water plant expenses; however, at year-end, the O&M Fund still had not repaid the General Fund. While increasing customer rates annually will relieve some of the financial pressure, the City should also meet with Veolia to review opportunities to cut costs or reduce increases in future contracts, as well as continue to explore options to refinance older debt at lower interest rates.

As in the prior year, we noted some issues during the testing of seventy-five disbursements. Three disbursements were not supported by purchase orders, seven invoices appeared to lack proper approval, two invoices were not cancelled, four disbursements were not supported by receiving reports, eight had no supporting invoice, and six were not paid within thirty days. There were seven instances where no documentation could be located to support refunds made for customer utility accounts. 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.

In the prior year, the City's utility billing clerk made adjustments to customer accounts for water leaks, etc. In order to facilitate proper segregation of duties, we recommended that an employee other than the utility billing clerk enter adjustments to customer accounts and that all adjustments be approved by someone in management. This was corrected during the fiscal year.

As in the prior year, the City's Municipal Order regarding travel reimbursements is vague and open to interpretation. 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 fiscal year 2016, 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 indicated that these payments should have been treated as wages and subjected to withholding taxes. As recommended, the City corrected this in fiscal year 2017 by treating payments to the volunteer firefighters as payroll, with the proper taxes withheld.

CURRENT YEAR

During the testing of disbursements, we noted six cleared checks that contained only one signature. We also noted several instances where the check number recorded in the general ledger did not agree with the preprinted number on the check. All disbursements require two signatures, and check numbers recorded in the general ledger should agree with the preprinted number on the check.

For three projects, the City did not have the original bids on file. Upon request, the engineers were able to send the originals for two of the projects, but the original bids for one project could not be located. We recommend that the City retain all documentation related to projects. We also noted that the City retains multiple "original" copies of project invoices, which could lead to duplicate payments. Additional copies should be defaced or destroyed to avoid the possibility of repeat payment.

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

September 10, 2018