

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2018
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2018, 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, 2018, 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, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note I to the financial statements, in fiscal year 2018, the City adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and related notes on pages 33 and 34 and the pension and OPEB schedules and notes on pages 35 through 39 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards on page 44 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards on page 44 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019 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 12, 2019

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 1,127,781	\$ 829,338	\$ 1,957,119
Investments	-	120,089	120,089
Receivables, net:			
Accounts - trade	-	373,355	373,355
Franchise fees	4,930	-	4,930
Miscellaneous	7,958	7,182	15,140
Taxes	73,488	-	73,488
Intergovernmental	32,625	-	32,625
Due from other funds	269,835	-	269,835
Prepaid expenses	30,789	48,360	79,149
Total Current Assets	<u>1,547,406</u>	<u>1,378,324</u>	<u>2,925,730</u>
Noncurrent Assets			
Restricted cash	-	1,615,113	1,615,113
Capital assets:			
Land and construction in process	295,145	360,494	655,639
Other capital assets, net of depreciation	2,155,609	36,524,816	38,680,425
Total Noncurrent Assets	<u>2,450,754</u>	<u>38,500,423</u>	<u>40,951,177</u>
Total Assets	<u>3,998,160</u>	<u>39,878,747</u>	<u>43,876,907</u>
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	-	12,324	12,324
Deferred amounts related to pensions	305,011	155,699	460,710
Deferred amounts related to OPEB	121,747	46,883	168,630
Total Deferred Outflows of Resources	<u>426,758</u>	<u>214,906</u>	<u>641,664</u>
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	10,341	53,287	63,628
Due on construction contracts	-	12,441	12,441
Due to other funds	-	269,835	269,835
Accrued expenses	-	8,102	8,102
Interest payable	-	70,041	70,041
Accrued vacation and payroll	20,152	13,905	34,057
Due to employees	990	-	990
Unearned revenue	-	43,255	43,255
Bonds and loans payable	-	1,134,692	1,134,692
Total Current Liabilities	<u>31,483</u>	<u>1,605,558</u>	<u>1,637,041</u>
Noncurrent Liabilities			
Customer deposits payable	-	273,420	273,420
Due to Greenshore customers	-	23,950	23,950
Loans payable	-	9,885,944	9,885,944
Revenue bonds payable	-	10,975,510	10,975,510
Net pension liability	859,511	472,233	1,331,744
Net OPEB liability	311,271	162,191	473,462
Total Noncurrent Liabilities	<u>1,170,782</u>	<u>21,793,248</u>	<u>22,964,030</u>
Total Liabilities	<u>1,202,265</u>	<u>23,398,806</u>	<u>24,601,071</u>
<u>Deferred Inflows of Resources</u>			
Deferred amounts related to pensions	31,432	34,778	66,210
Deferred amounts related to OPEB	19,242	8,491	27,733
Total Deferred Inflows of Resources	<u>50,674</u>	<u>43,269</u>	<u>93,943</u>
<u>Net Position</u>			
Net investment in capital assets	2,450,754	14,877,538	17,328,292
Restricted	60,293	1,461,782	1,522,075
Unrestricted	660,932	312,258	973,190
Total Net Position	<u>\$ 3,171,979</u>	<u>\$ 16,651,578</u>	<u>\$ 19,823,557</u>

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<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	\$ 341,699	\$ -	\$ 7,284	\$ -	\$ (334,415)	\$ -	\$ (334,415)
Streets and maintenance	148,318	-	-	430,497	282,179	-	282,179
Police department	527,501	1,504	32,024	-	(493,973)	-	(493,973)
Fire department	236,211	60,375	25,285	72,000	(78,551)	-	(78,551)
Total Governmental Activities	1,253,729	61,879	64,593	502,497	(624,760)	-	(624,760)
<u>Business-Type Activities</u>							
Water	3,500,801	3,388,792	-	10,513	-	(101,496)	(101,496)
Sewer	523,372	460,745	-	634,561	-	571,934	571,934
Sanitation	412,230	321,075	-	-	-	(91,155)	(91,155)
Total Business-Type Activities	4,436,403	4,170,612	-	645,074	-	379,283	379,283
Total Primary Government	\$ 5,690,132	\$ 4,232,491	\$ 64,593	\$ 1,147,571	\$ (624,760)	\$ 379,283	\$ (245,477)
<u>General Revenues</u>							
Property taxes					\$ 518,528	\$ -	\$ 518,528
Insurance premium taxes					283,069	-	283,069
Franchise fees					48,473	-	48,473
Licenses and permits					41,156	-	41,156
Interest income					3,862	28,093	31,955
Miscellaneous					51,924	85,272	137,196
Disposal of fixed assets					(5,608)	6,367	759
Total					941,404	119,732	1,061,136
Changes in Net Position					316,644	499,015	815,659
Net Position - Beginning of Year					3,049,266	16,259,638	19,308,904
Prior period adjustment					(193,931)	(107,075)	(301,006)
Net Position - Beginning of Year (Restated)					2,855,335	16,152,563	19,007,898
Net Position - End of Year					\$ 3,171,979	\$ 16,651,578	\$ 19,823,557

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018**

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 1,127,781
Receivables, net:	
Franchise fees	4,930
Miscellaneous	7,958
Taxes	73,488
Intergovernmental	10,625
Prepaid expenses	30,789
Due from other funds	269,835
Total Assets	\$ 1,525,406
<u>Liabilities</u>	
Accounts payable	\$ 10,341
Accrued payroll	7,766
Due to employees	990
Total Liabilities	19,097
<u>Fund Balance</u>	
Nonspendable	30,789
Restricted	60,293
Assigned	112,622
Unassigned	1,302,605
Total Fund Balance	1,506,309
Total Liabilities and Fund Balance	\$ 1,525,406

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

Total Governmental Fund Balance		\$ 1,506,309
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.		2,450,754
The difference in intergovernmental receivable is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds.		22,000
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and therefore are not reported in the governmental funds.		376,084
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Accrued vacation	(12,386)	
Net pension liability	(859,511)	
Net OPEB liability	(311,271)	
Total Net Position of Governmental Activities		\$ 3,171,979

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, 2018

	General Fund
<u>Revenues</u>	
Property taxes	\$ 518,528
Insurance premium taxes	283,069
Licenses and permits	41,156
Rental income	17,450
Interest income	3,862
Miscellaneous	8,622
Donations	16,041
Franchise fees	48,473
Fire department subscription fees	57,962
Intergovernmental revenues	500,049
Total Revenues	1,495,212
<u>Expenditures</u>	
Current:	
General government:	
Salaries and benefits	63,287
Administrative travel	1,329
Utilities	21,270
Insurance	3,878
Office expense	5,162
Advertising and printing	1,286
Professional fees	8,298
Repairs and maintenance	6,258
Supplies	5,343
Miscellaneous	5,910
Police department	430,587
Fire department	113,602
Streets and maintenance	143,912
Capital outlay	848,362
Total Expenditures	1,658,484
Excess (Deficiency) of Revenues Over Expenditures	(163,272)
<u>Other Financing Sources</u>	
Insurance recoveries - impaired assets	29,769
Net Changes in Fund Balance	(133,503)
Fund Balance - Beginning of Year	1,639,812
Fund Balance - End of Year	\$ 1,506,309

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, 2018**

Net Changes in Fund Balance - Governmental Fund \$ (133,503)

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. 554,316

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. (5,608)

The difference in grant revenue and donated capital is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds. 51,000

In the Statement of Activities, the change in net pension and OPEB liabilities, deferred outflows of resources, and deferred inflows of resources are reported, while the changes in these accounts are not reported in the governmental funds. This is the net change in these accounts. (143,547)

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. (6,014)

Changes in Net Position of Governmental Activities \$ 316,644

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
	Fund	Fund	Fund	Total
<u>Assets</u>				
Current Assets				
Cash and cash equivalents	\$ 453,024	\$ 151,090	\$ 225,224	\$ 829,338
Investments	81,529	31,643	6,917	120,089
Receivables, net:				
Accounts - trade	303,537	42,675	27,143	373,355
Miscellaneous	4,316	1,433	1,433	7,182
Due from other funds	4,632	4,718	2,287	11,637
Prepaid expenses	36,466	10,034	1,860	48,360
Total Current Assets	883,504	241,593	264,864	1,389,961
Noncurrent Assets				
Restricted cash	1,546,152	68,961	-	1,615,113
Capital assets:				
Land and construction in process	221,133	139,361	-	360,494
Other capital assets, net of depreciation	31,817,509	4,347,007	360,300	36,524,816
Total Noncurrent Assets	33,584,794	4,555,329	360,300	38,500,423
Total Assets	34,468,298	4,796,922	625,164	39,890,384
<u>Deferred Outflows of Resources</u>				
Deferred amount on debt refundings	8,783	3,541	-	12,324
Deferred amounts related to pensions	116,756	16,404	22,539	155,699
Deferred amounts related to OPEB	35,155	4,940	6,788	46,883
Total Deferred Outflows of Resources	160,694	24,885	29,327	214,906
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	43,524	3,050	6,713	53,287
Due on construction contracts	1,541	10,900	-	12,441
Due to other funds	276,840	4,632	-	281,472
Accrued expenses	8,102	-	-	8,102
Interest payable	62,248	7,793	-	70,041
Accrued vacation and payroll	10,638	1,398	1,869	13,905
Unearned revenue	43,255	-	-	43,255
Bonds and loans payable	951,596	138,608	44,488	1,134,692
Total Current Liabilities	1,397,744	166,381	53,070	1,617,195
Noncurrent Liabilities				
Customer deposits payable	273,420	-	-	273,420
Due to Greenshore customers	23,950	-	-	23,950
Loans payable	7,998,376	1,760,307	127,261	9,885,944
Revenue bonds payable	10,526,471	414,039	35,000	10,975,510
Net pension liability	354,157	49,746	68,330	472,233
Net OPEB liability	121,637	17,086	23,468	162,191
Total Noncurrent Liabilities	19,298,011	2,241,178	254,059	21,793,248
Total Liabilities	20,695,755	2,407,559	307,129	23,410,443
<u>Deferred Inflows of Resources</u>				
Deferred amounts related to pensions	26,082	3,664	5,032	34,778
Deferred amounts related to OPEB	6,368	895	1,228	8,491
Total Deferred Inflows of Resources	32,450	4,559	6,260	43,269
<u>Net Position</u>				
Net investment in capital assets	12,547,032	2,176,955	153,551	14,877,538
Restricted for capital and debt service	1,354,261	100,604	6,917	1,461,782
Unrestricted	(506)	132,130	180,634	312,258
Total Net Position	\$ 13,900,787	\$ 2,409,689	\$ 341,102	\$ 16,651,578

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, 2018

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<u>Operating Revenues</u>				
Charges for services	\$ 3,207,655	\$ 454,530	\$ 317,644	\$ 3,979,829
Penalty charges	43,438	6,215	3,431	53,084
Connection fees	137,699	-	-	137,699
Total Operating Revenues	3,388,792	460,745	321,075	4,170,612
<u>Operating Expenses</u>				
Salaries and benefits	259,887	41,371	62,768	364,026
Maintenance and supplies	69,371	6,376	5,041	80,788
Chemicals	37,640	-	-	37,640
Contract operations	1,031,233	192,659	202,011	1,425,903
Professional fees	4,248	1,153	-	5,401
Office and advertising	36,843	13,436	13,152	63,431
Landfill fees	-	-	72,899	72,899
Depreciation	1,153,246	167,318	44,729	1,365,293
Rental expense	5,400	3,300	4,800	13,500
Insurance	34,833	11,383	3,054	49,270
Utilities	338,651	53,516	1,531	393,698
Miscellaneous	3,413	53	307	3,773
Total Operating Expenses	2,974,765	490,565	410,292	3,875,622
Operating Income (Loss)	414,027	(29,820)	(89,217)	294,990
<u>Non-Operating Revenues (Expenses)</u>				
Interest income	25,137	2,742	214	28,093
Rental income	48,552	-	-	48,552
Other income	29,906	-	1,392	31,298
Gain on disposal of fixed assets	5,930	437	-	6,367
Debt service repayments	9,573	-	-	9,573
Insurance recoveries - impaired assets	5,238	92	92	5,422
Interest expense	(526,036)	(32,807)	(1,938)	(560,781)
Total Non-Operating Revenues (Expenses)	(401,700)	(29,536)	(240)	(431,476)
Income (Loss) Before Capital Contributions	12,327	(59,356)	(89,457)	(136,486)
Capital Contributions	940	634,561	-	635,501
Changes in Net Position	13,267	575,205	(89,457)	499,015
Net Position - Beginning of Year	13,970,032	1,845,720	443,886	16,259,638
Prior period adjustment	(82,512)	(11,236)	(13,327)	(107,075)
Net Position - Beginning of Year (Restated)	13,887,520	1,834,484	430,559	16,152,563
Net Position - End of Year	\$ 13,900,787	\$ 2,409,689	\$ 341,102	\$ 16,651,578

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, 2018

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<u>Cash Flows from Operating Activities:</u>				
Cash received from customers and others	\$ 3,380,304	\$ 462,916	\$ 323,903	\$ 4,167,123
Cash payments to suppliers for goods and services	(1,588,486)	(291,721)	(314,880)	(2,195,087)
Cash payments to employees for services	(233,219)	(36,142)	(46,660)	(316,021)
Net Cash Provided (Used) by Operating Activities	<u>1,558,599</u>	<u>135,053</u>	<u>(37,637)</u>	<u>1,656,015</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(178,573)	(1,385,799)	(156,497)	(1,720,869)
Proceeds from sale of capital assets	5,930	437	-	6,367
Capital contributions	940	634,561	-	635,501
Payment on Greenshore liability	541	-	-	541
Insurance recoveries	5,238	92	92	5,422
Proceeds from debt	-	726,423	156,497	882,920
Principal paid on debt	(932,149)	(79,421)	(15,000)	(1,026,570)
Interest paid on debt	(532,141)	(28,552)	(1,938)	(562,631)
Net Cash Used by Capital and Related Financing Activities	<u>(1,630,214)</u>	<u>(132,259)</u>	<u>(16,846)</u>	<u>(1,779,319)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Interfund loans	(113,171)	-	-	(113,171)
Net Cash Used by Noncapital Financing Activities	<u>(113,171)</u>	<u>-</u>	<u>-</u>	<u>(113,171)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest income	25,218	362	214	25,794
Other non-operating income and expenses	88,031	-	1,392	89,423
Net Cash Provided by Investing Activities	<u>113,249</u>	<u>362</u>	<u>1,606</u>	<u>115,217</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(71,537)	3,156	(52,877)	(121,258)
Cash and Cash Equivalents - Beginning of Year	2,152,242	248,538	285,018	2,685,798
Cash and Cash Equivalents - End of Year	<u>\$ 2,080,705</u>	<u>\$ 251,694</u>	<u>\$ 232,141</u>	<u>\$ 2,564,540</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>				
Operating income (loss)	\$ 414,027	\$ (29,820)	\$ (89,217)	\$ 294,990
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,153,246	167,318	44,729	1,365,293
Change in assets and liabilities:				
Receivables, net	(17,878)	(176)	2,828	(15,226)
Due from other funds	-	2,347	-	2,347
Prepaid expenses	(32,810)	(8,961)	(787)	(42,558)
Deferred outflows related to pensions and OPEB	(78,792)	(11,298)	(16,868)	(106,958)
Accounts payable	6,475	(884)	(11,298)	(5,707)
Accrued expenses	(519)	-	-	(519)
Other liabilities	9,607	28	35	9,670
Net pension and OPEB liabilities	104,389	16,244	31,787	152,420
Deferred inflows related to pensions and OPEB	854	255	1,154	2,263
Total Adjustments	<u>1,144,572</u>	<u>164,873</u>	<u>51,580</u>	<u>1,361,025</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,558,599</u>	<u>\$ 135,053</u>	<u>\$ (37,637)</u>	<u>\$ 1,656,015</u>

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, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hardinsburg (City) is a home rule 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, 2018**

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, 2018**

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 \$35,191 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, 2018, the allowances for uncollectible trade and property tax receivables were \$13,057 and \$14,598, 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, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions and Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) for each, and additions to/deductions from fiduciary net position for each have been determined on the same basis as they are reported by CERS. 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, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 and OPEB 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 and OPEB include pension and OPEB contributions made during the current fiscal year but applicable to a future measurement period of the net pension and OPEB liabilities, respectively.

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 and OPEB in the Statement of Net Position in this category.

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, 2018**

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 delinquent tax claims become a lien on the property when sold (usually the following May). The City's real and personal property tax rate is \$.321 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, 2018**

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, 2018, the reported amount of the City's cash and cash equivalents was \$3,572,232 and the bank balance was \$3,746,909. 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, \$6,917 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 \$113,172 is uninsured and unregistered. These investments are reported at cost, which was \$120,089 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, 2018 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 453,024	\$151,090	\$225,224	\$ 829,338
Restricted cash	1,546,152	68,961	-	1,615,113
Investments	81,529	31,643	6,917	120,089
Total	<u>\$2,080,705</u>	<u>\$251,694</u>	<u>\$232,141</u>	<u>\$2,564,540</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018 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	\$4,066,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,259,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,194,800
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,813,000
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 50,000
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$1,875,000

R – Denotes refunding bond issue

Loans Payable

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 \$7,334.

During the year ended June 30, 2003, the City finalized a \$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 \$128,606.

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 \$2,200,123.

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 \$1,247,056.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE D - LONG-TERM DEBT (CONTINUED)

Loans Payable (Concluded)

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 balance at year-end was \$2,013,801.

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 \$396,068. 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 \$199,185.

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 \$2,529,829.

During the year ended June 30, 2016, 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 \$525,023.

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 \$1,263,662 to date (\$726,423 in the current fiscal year). Once the loan is finalized, it calls for forty semi-annual payments of \$34,466, including interest at .75%, and ten annual transfers of \$3,200 to the replacement and maintenance reserve account.

In April 2018, the City obtained a \$156,749 loan from Cecilian Bank for a 2018 Freightliner garbage truck. The loan calls for ten semi-annual payments of \$17,017, which include interest at 3%. The loan balance at year-end was \$156,749.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE D - LONG-TERM DEBT (CONCLUDED)

Debt Service Requirements

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2018, including interest payments are as follows:

Fiscal Year Ending June 30,	Business-Type Activities			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2019	\$ 353,200	\$ 424,058	\$ 781,492	\$ 99,665
2020	370,000	410,366	782,523	96,674
2021	387,900	399,200	791,010	88,231
2022	385,700	383,734	799,596	79,663
2023	970,200	454,089	793,349	71,137
2024 - 2028	1,656,800	1,538,799	3,714,801	236,900
2029 - 2033	1,540,300	1,238,091	2,394,445	84,152
2034 - 2038	1,809,100	925,387	610,220	9,793
2039 - 2043	2,191,200	547,398	-	-
2044 - 2048	1,421,900	137,741	-	-
2049 - 2050	171,500	7,770	-	-
Totals	<u>\$11,257,800</u>	<u>\$6,466,633</u>	<u>\$10,667,436</u>	<u>\$766,215</u>

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due In One Year
<u>Business-Type Activities</u>					
Bonds payable	\$11,598,200	\$ -	\$ 340,400	\$11,257,800	\$ 353,200
Loans payable	10,470,434	883,172	686,170	10,667,436	781,492
Premium	76,746	-	5,836	70,910	5,838
Net bonds and loans payable	22,145,380	883,172	1,032,406	21,996,146	1,140,530
Customer deposits	262,665	87,350	76,595	273,420	-
Due to Greenshore	24,950	601	60	25,491	1,541
	<u>\$22,432,995</u>	<u>\$971,123</u>	<u>\$1,109,061</u>	<u>\$22,295,057</u>	<u>\$1,142,071</u>

The Enterprise Funds are primarily responsible for paying bond and loan obligations, customer deposits, and the Greenshore liability.

NOTE E - UNEARNED REVENUE

The City has two five-year tower lease agreements, for which it receives annual rent in advance of the term of the lease. Accordingly, \$43,255 is reported as unearned revenue on the Statement of Net Position.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F - FUND BALANCE

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 30,789
Restricted:	
Road aid	55,555
Drug enforcement	4,738
Total Restricted	60,293
Assigned:	
Industrial development	106,970
Fire department	5,652
Total Assigned	112,622
Unassigned	1,302,605
Total Fund Balance	\$1,506,309

NOTE G - RESTRICTED NET POSITION

Restricted net position of the Governmental Activities included \$55,555 for road aid and \$4,738 for drug enforcement activities, while restricted net position of the Business-Type Activities included \$1,461,782 for capital and debt service.

NOTE H - INTERFUND ACTIVITY

The O&M Fund repaid \$106,191 to the General Fund for an operating loan made in a prior year. The remaining balance will be repaid as funds become available. The following interfund balances existed at year-end:

Due From	Due To	Amount	Purpose
O&M Fund	General Fund	\$269,835	Short-term operating loan
O&M Fund	WWT Fund	4,718	Utility sales
O&M Fund	Sanitation Fund	2,287	Utility sales
WWT Fund	O&M Fund	4,632	Debt service

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement was implemented during the current fiscal year and resulted in the restatement of the beginning net position of the governmental and business-type activities in the government-wide financial statements and of the proprietary funds in the fund level financial statements. Other GASB statements effective for the fiscal year had no impact on the City's financial statements.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS (CONCLUDED)

	Governmental Activities	Business-Type Activities		
		O&M Fund	WWT Fund	Sanitation Fund
Net Position at June 30, 2017, Previously Reported	\$3,049,266	\$13,970,032	\$1,845,720	\$443,886
Prior period adjustment for: Net OPEB liability as of measurement date of June 30, 2016	(211,822)	(90,124)	(12,272)	(14,557)
Deferred outflows – City’s contributions made during fiscal year 2017	17,891	7,612	1,036	1,230
Net Position at June 30, 2017, Restated	<u>\$2,855,335</u>	<u>\$13,887,520</u>	<u>\$1,834,484</u>	<u>\$430,559</u>

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - PENSION PLANS (CONTINUED)

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 19.18% (14.48% for pension and 4.7% for health insurance) and 31.55% (22.2% pension; 9.35% insurance) of members’ non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2018. The contribution rate for the measurement period of June 30, 2017 was 18.68% (13.95% for pension and 4.73% for health insurance) and 31.06% (21.71% pension; 9.35% insurance) of members’ non-hazardous and hazardous compensation, respectively.

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, 2018, the City reported a liability of \$1,331,744 for its proportionate share of the net pension liability for CERS, which included \$714,747 for non-hazardous and \$616,997 for hazardous. The net pension liability was measured as of June 30, 2017, 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, 2016 through June 30, 2017. At June 30, 2017, the City’s proportion was 0.012211% non-hazardous and 0.027578% hazardous, an increase of 0.00155% and 0.000213%, respectively, over the prior year.

For the year ended June 30, 2018, the City recognized total pension expense of \$240,652 for CERS, which included \$118,980 for non-hazardous and \$121,672 for hazardous.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - PENSION PLANS (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,518	\$18,143
Changes of assumptions	254,967	-
Net difference between projected and actual earnings on pension plan investments	14,232	-
Changes in proportion and differences between City contributions and proportionate share of contributions	87,054	48,067
City contributions subsequent to the measurement date	80,939	-
	\$460,710	\$66,210

\$80,939 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, 2019. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	\$136,190
2020	133,657
2021	59,623
2022	(15,909)

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation Rate:	2.3%
Projected Salary Increases:	3.05%, average
Investment Rate of Return:	6.25%

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. At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively. This will be reviewed again when the next experience investigation is conducted.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - PENSION PLANS (CONCLUDED)

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate*	5%	7.63%
Absolute Return	10%	5.63%
Real Return*	10%	6.13%
Private Equity	10%	8.25%
Cash Equivalent	2%	1.88%
Total	<u>100%</u>	

*Long-term expected real rates of return may vary by plans depending on the risk tolerance of the plan.

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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-six year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 6.25%, 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 5.25%	Current Discount 6.25%	1% Increase 7.25%
Non-hazardous	\$901,451	\$714,747	\$558,571
Hazardous	\$775,762	\$616,997	\$485,880

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - OTHER POST-EMPLOYMENT BENEFITS

County Employees Retirement System Insurance Fund

General Information about the County Employees Retirement System Insurance Fund

Plan Description – County Employees Retirement System (CERS) Non-hazardous and Hazardous Insurance Funds are cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) plans for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plan provides for health insurance benefits to plan members, and it may be extended to beneficiaries of plan members under certain circumstances. It is administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers OPEB and has the authority to establish and amend benefit provisions. The KRS issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the KRS website at www.kyret.ky.gov.

Benefits Provided – CERS provides health insurance benefits to plan employees and beneficiaries when applicable. For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The KRS Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

Contributions – Employees in Tiers 2 and 3 (see Note J) contribute an additional 1% of their salaries for health insurance. This amount is credited to the Insurance Fund and is non-refundable to the member. Participating employers contributed 19.18% (14.48% for pension and 4.7% for health insurance) and 31.55% (22.2% pension; 9.35% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2018. The contribution rate for the measurement period of June 30, 2017 was 18.68% (13.95% for pension and 4.73% for health insurance) and 31.06% (21.71% pension; 9.35% insurance) of members' non-hazardous and hazardous compensation, respectively.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$473,462 for its proportionate share of the net OPEB liability for CERS, which included \$245,483 for non-hazardous and \$227,979 for hazardous. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled forward from the valuation date of June 30, 2016 to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. The City's proportion of the net OPEB 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, 2016 through June 30, 2017. At June 30, 2017, the City's proportion was 0.012211% non-hazardous and 0.027578% hazardous, respectively.

For the year ended June 30, 2018, the City recognized total OPEB expense of \$62,681 for CERS, which included \$27,974 for non-hazardous and \$34,707 for hazardous. The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,213
Changes of assumptions	137,508	-
Net difference between projected and actual earnings on OPEB plan investments	-	25,905
Changes in proportion and differences between City contributions and proportionate share of contributions	-	615
City contributions subsequent to the measurement date	31,122	-
	\$168,630	\$27,733

\$31,122 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$26,995
2020	26,995
2021	26,995
2022	16,143
2023	9,879
Thereafter	2,768

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation Rate:	2.3%
Payroll Growth Rate:	2% for CERS non-hazardous and hazardous
Projected Salary Increases:	3.05%, average
Investment Rate of Return:	6.25% for CERS non-hazardous and hazardous
Healthcare Trend Rates (under age 65):	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Trend Rates (age 65 and over):	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

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. At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively. This will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS, are summarized in the table in Note J (target allocations and real rates of return are the same for the CERS Pension and Insurance Funds).

Discount Rate – The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous and 5.96% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-six years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - OTHER POST-EMPLOYMENT BENEFITS (CONCLUDED)

Sensitivity of Proportionate Share of Net OPEB Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net OPEB liability calculated using the discount rate of 5.84% for non-hazardous and 5.96% for hazardous, as well as what the City’s proportionate share of the net OPEB 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 4.84%	Current Discount 5.84%	1% Increase 6.84%
Non-hazardous	\$312,363	\$245,483	\$189,828
Hazardous	4.96% \$305,524	5.96% \$227,979	6.96% \$164,536

Sensitivity of Proportionate Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following table presents the City’s proportionate share of the net OPEB liability calculated using the healthcare cost trend rate, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$188,298	\$245,483	\$319,820
Hazardous	\$161,383	\$227,979	\$310,403

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

NOTE L - 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 M - COMMITMENTS UNDER LEASES

The City incurred \$2,665 in lease expense for the fiscal year for an operating lease for office equipment. Commitments under the new operating lease agreement provide the minimum future rental payments of \$2,665 for the next three years.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE N - CAPITAL ASSETS

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

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
<u>Governmental Activities</u>				
Not Depreciated:				
Land	\$ 295,145	\$ -	\$ -	\$ 295,145
Construction in process	43,350	458,409	(501,759)	-
Subtotal	<u>338,495</u>	<u>458,409</u>	<u>(501,759)</u>	<u>295,145</u>
Depreciated:				
Buildings and improvements	893,384	68,587	-	961,971
Furniture and fixtures	70,810	-	-	70,810
Equipment	670,680	207,647	-	878,327
Vehicles	1,047,405	76,582	(28,041)	1,095,946
Parks	157,145	11,385	-	168,530
Infrastructure	1,336,960	556,511	-	1,893,471
Subtotal	<u>4,176,384</u>	<u>920,712</u>	<u>(28,041)</u>	<u>5,069,055</u>
Accumulated Depreciation	<u>2,641,833</u>	<u>294,046</u>	<u>(22,433)</u>	<u>2,913,446</u>
Net Capital Assets	<u>\$ 1,873,046</u>	<u>\$1,085,075</u>	<u>\$ (507,367)</u>	<u>\$ 2,450,754</u>
<u>Business-Type Activities</u>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Construction in process	1,065,952	85,333	(1,065,952)	85,333
Subtotal	<u>1,341,113</u>	<u>85,333</u>	<u>(1,065,952)</u>	<u>360,494</u>
Depreciated:				
Buildings and improvements	311,125	-	-	311,125
Equipment	996,834	177,179	-	1,174,013
Vehicles	176,820	27,300	-	204,120
Treatment plants	15,232,268	-	-	15,232,268
Distribution system	27,550,434	49,226	-	27,599,660
Wastewater plant	5,043,860	2,218,019	-	7,261,879
Subtotal	<u>49,311,341</u>	<u>2,471,724</u>	<u>-</u>	<u>51,783,065</u>
Accumulated Depreciation	<u>13,892,956</u>	<u>1,365,293</u>	<u>-</u>	<u>15,258,249</u>
Net Capital Assets	<u>\$36,759,498</u>	<u>\$1,191,764</u>	<u>\$(1,065,952)</u>	<u>\$36,885,310</u>

Depreciation expense and related accumulated depreciation are detailed as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
<u>Governmental Activities</u>				
Buildings and improvements	\$ 424,675	\$ 35,486	\$ -	\$ 460,161
Furniture and fixtures	62,807	2,070	-	64,877
Equipment	479,606	50,547	-	530,153
Vehicles	725,821	81,553	(22,433)	784,941
Parks	93,652	8,620	-	102,272
Infrastructure	855,272	115,770	-	971,042
Total	<u>\$ 2,641,833</u>	<u>\$ 294,046</u>	<u>\$ (22,433)</u>	<u>\$ 2,913,446</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE N - CAPITAL ASSETS (CONCLUDED)

	July 1, 2017	Additions	Deletions	June 30, 2018
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 164,429	\$ 10,653	\$ -	\$ 175,082
Equipment	553,132	86,327	-	639,459
Vehicles	176,413	3,137	-	179,550
Treatment plants	3,830,432	389,967	-	4,220,399
Distribution system	6,395,581	710,876	-	7,106,457
Wastewater plant	2,772,969	164,333	-	2,937,302
Total	<u>\$13,892,956</u>	<u>\$1,365,293</u>	<u>\$ -</u>	<u>\$15,258,249</u>

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

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General government	\$140,571	O&M	\$1,153,246
Streets and maintenance	4,404	Wastewater	167,318
Police department	26,461	Sanitation	44,729
Fire department	122,610		
	<u>\$294,046</u>		<u>\$1,365,293</u>

NOTE O - 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.

In February 2016, a lawsuit was filed against the City police department. All claims against the City were dismissed in federal court in March 2018 and in state court in February 2019.

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 \$1,487,987, which included an annual repair and maintenance allowance of \$224,000. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2018-2019 is \$1,519,577, 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, 2018**

NOTE O - 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. For the year ended June 30, 2018, the City collected \$144,957 in water revenue from Irvington.

In February 2009, the City entered into a forty-year contract with the City of Cloverport, Kentucky (Cloverport), whereby the City will sell water to Cloverport as a wholesale water customer. The initial rate was \$2.14 per thousand gallons of consumption, subject to a minimum of 3.6 million gallons per month or \$7,704. The wholesale rate is subject to annual adjustments, but no changes have been made. For the year ended June 30, 2018, the City billed Cloverport \$121,629 for water.

New regulations required the City to remove phosphorus at the wastewater treatment plant, which cost the City \$2.21 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 completed prior to year-end, and the City received \$726,423 in KIA loan proceeds and \$634,561 in CDBG funds during the fiscal year.

In December 2015, the City was awarded a \$400,000 sidewalk grant, and the City was required to match a minimum of \$80,000. The \$501,759 project was completed prior to year-end, and the City had \$458,409 in expenditures during the fiscal year and received \$355,559 in grant proceeds.

The City received approval from the Kentucky Retirement System to change all police officers to hazardous retirement, which will become effective in October 2018.

NOTE P - SUBSEQUENT EVENTS

Subsequent to year-end, the City awarded a bid of \$646,861 for a water line expansion and booster pump replacement, which is to be financed by a KIA loan. The City also approved replacing membranes at the water treatment plant at a cost of \$62,135.

The City was also the recipient of another sidewalk grant in the amount of \$400,000 (\$320,000 in grant proceeds and \$80,000 local match).

NOTE Q - DEFICIT FUND BALANCE/NET POSITION

No funds ended the year with a deficit fund balance/net position; however, Governmental Activities, Business-Type Activities, and the Sanitation Fund had operations that resulted in current year reductions of net position, while the General Fund had a reduction in fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 501,652	\$ 519,183	\$ 518,528	\$ (655)
Insurance premium taxes	256,000	268,100	283,069	14,969
Licenses and permits	43,018	42,483	41,156	(1,327)
Rental income	17,035	17,275	17,450	175
Interest income	2,955	3,206	3,862	656
Miscellaneous	7,363	7,865	8,622	757
Donations	35,850	16,041	16,041	-
Franchise fees	46,432	47,834	48,473	639
Fire department subscription fees	57,000	57,826	57,962	136
Intergovernmental revenues	659,653	499,601	500,049	448
Total Revenues	1,626,958	1,479,414	1,495,212	15,798
Expenditures				
Current:				
General government	144,600	134,034	122,021	12,013
Police department	446,353	435,359	430,587	4,772
Fire department	108,447	86,937	113,602	(26,665)
Streets and maintenance	143,554	145,054	143,912	1,142
Debt service	15,291	-	-	-
Capital outlay	776,490	853,156	848,362	4,794
Total Expenditures	1,634,735	1,654,540	1,658,484	(3,944)
Excess (Deficiency) of Revenues Over Expenditures	(7,777)	(175,126)	(163,272)	11,854
Other Financing Sources				
Proceeds from sale of fixed assets	3,000	-	-	-
Insurance recoveries	-	26,640	29,769	3,129
Total Other Financing Sources	3,000	26,640	29,769	3,129
Net Changes in Fund Balance	(4,777)	(148,486)	(133,503)	14,983
Fund Balance - Beginning of Year	650,334	691,803	1,648,773	956,970
Fund Balance - End of Year	\$ 645,557	\$ 543,317	\$ 1,515,270	\$ 971,953

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

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 is presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a 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 2018 fiscal year, the City incurred line item expenditures in excess of budget.

**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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>				
City's proportion of the net pension liability	0.01221%	0.01066%	0.01286%	0.01257%
City's proportionate share of the net pension liability	\$ 714,747	\$ 524,876	\$ 552,942	\$ 408,000
City's covered payroll	\$ 297,320	\$ 254,305	\$ 300,054	\$ 288,467
City's proportionate share of the net pension liability as a percentage of its covered payroll	240.40%	206.40%	184.28%	141.44%
Plan fiduciary net position as a percentage of the total pension liability	53.325%	55.503%	59.968%	66.801%
<u>Hazardous</u>				
City's proportion of the net pension liability	0.02758%	0.02736%	0.02043%	0.02310%
City's proportionate share of the net pension liability	\$ 616,997	\$ 469,559	\$ 313,604	\$ 278,000
City's covered payroll	\$ 151,388	\$ 142,266	\$ 104,496	\$ 116,989
City's proportionate share of the net pension liability as a percentage of its covered payroll	407.56%	330.06%	300.11%	237.63%
Plan fiduciary net position as a percentage of the total pension liability	49.784%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>				
Contractually required contribution	\$ 45,884	\$ 41,476	\$ 31,585	\$ 38,257
Contributions in relation to the contractually required contribution	<u>(45,884)</u>	<u>(41,476)</u>	<u>(31,585)</u>	<u>(38,257)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 316,882	\$ 297,320	\$ 254,305	\$ 300,054
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%
<u>Hazardous</u>				
Contractually required contribution	\$ 35,055	\$ 32,866	\$ 28,823	\$ 21,662
Contributions in relation to the contractually required contribution	<u>(35,055)</u>	<u>(32,866)</u>	<u>(28,823)</u>	<u>(21,662)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 157,904	\$ 151,388	\$ 142,266	\$ 104,496
Contributions as a percentage of covered payroll	22.20%	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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
Last 10 Fiscal Years***

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2018</u>
<u>Non-Hazardous</u>	
City's proportion of the net OPEB liability	0.01221%
City's proportionate share of the net OPEB liability	\$ 245,483
City's covered payroll	\$ 297,320
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	52.394%
 <u>Hazardous</u>	
City's proportion of the net OPEB liability	0.02758%
City's proportionate share of the net OPEB liability	\$ 227,979
City's covered payroll	\$ 151,388
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	150.59%
Plan fiduciary net position as a percentage of the total OPEB liability	58.988%

Note: The data provided in this schedule is based on the measurement date of the CERS net OPEB 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 OPEB CONTRIBUTIONS**

Last 10 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2018</u>
<u>Non-Hazardous</u>	
Contractually required contribution	\$ 14,893
Contributions in relation to the contractually required contribution	<u>(14,893)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered payroll	\$ 316,882
Contributions as a percentage of covered payroll	4.70%
<u>Hazardous</u>	
Contractually required contribution	\$ 14,764
Contributions in relation to the contractually required contribution	<u>(14,764)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered payroll	\$ 157,904
Contributions as a percentage of covered payroll	9.35%

* 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 AND OPEB SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - PENSIONS

Changes in Assumptions and Benefit Terms:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in the CERS actuary report. The changes are noted below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

NOTE B - OPEB

Changes in Assumptions and Benefit Terms:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

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



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2018, 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 12, 2019.

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.

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 *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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 to 2018-003 and 2018-005 to 2018-006, that we consider 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-004 and 2018-007.

We noted certain additional matters that we have reported to management in a separate letter dated September 12, 2019.

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 Questioned Costs. 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 results 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 12, 2019



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hardinsburg, Kentucky's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

September 12, 2019

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>United States Department of Homeland Security</u>			
Passed through Kentucky Office of Homeland Security:			
Homeland Security Grant Program	97.067	1800002451	\$ 22,000
<u>United States Department of Transportation</u>			
Passed through Kentucky Transportation Cabinet:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	1600001806	353,279
<u>United States Department of Housing and Urban Development</u>			
Passed through Kentucky Department for Local Government:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	16-002	<u>593,749</u>
Total Expenditures of Federal Awards			<u><u>\$ 969,028</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

This schedule includes the federal award activity of the City of Hardinsburg, Kentucky under programs of the federal government for the year ended June 30, 2018 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). As the schedule presents only a selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - SUBRECIPIENTS

No awards were provided to subrecipients.

NOTE 4 - INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I: Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Qualified

Internal control over financial reporting:

- | | | |
|---|---|---|
| Any material weakness(es) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |
| Any noncompliance material to financial statements noted? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |

Federal Awards

Internal control over major programs:

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

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

- | | | |
|--|------------------------------|--|
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

- | | | |
|--|------------------------------|--|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Section II: Financial Statement Findings

Findings 2018-001 through 2018-007.

Section III: Federal Awards Findings and Questioned Costs

None reported.

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-001 (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>	While the City is capable of the record keeping required for internal needs, it is not capable of the external financial reporting in conformity with GAAP.
<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 or to outsource this function.
<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: 2018-002 (Repeat)

<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 statements be reconciled immediately after the close of each month.
<i>Cause:</i>	The City changed accounting software during a prior fiscal year and was unable to reconcile some 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>As of date [of the audit fieldwork] all bank accounts are balanced, with the exception of one bank account. We are diligently working with our software company to resolve this account.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-003 (Repeat)

<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 prior 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, or this function should be outsourced. Effort should be made to continue to properly train staff in implementing the new software.
<i>Management Response:</i>	<i>Management is aware of funds being out of balance. This has been corrected. The City is in the process of cross-training and familiarizing office staff.</i>

Finding: 2018-004 (Repeat)

<i>Condition:</i>	The City's audit report for the year ended June 30, 2018 was not completed by the due date of February 1, 2019, and the Single Audit Report was not completed by March 31, 2019.
<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. Furthermore, the Single Audit Act requires the Single Audit Report to be issued within nine months of the fiscal year end.
<i>Cause:</i>	Due to lack of training and familiarity with the new accounting software and the absence of a key employee, the City was significantly impacted in its ability to perform the financial reporting close in a timely manner. The City's trial balance became available in April 2019, which delayed our ability to perform audit work.
<i>Effect:</i>	The City was in violation of its annual financial audit requirement and the Single Audit Act.
<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. Cross-training in important jobs should be implemented, so key tasks can be performed during the absence of the responsible employee.
<i>Management Response:</i>	<i>Management will start cross-training all employees. This was an unusual year with limited staff.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-005

<i>Condition:</i>	The City purchased turnout gear in April 2018 as a result of a \$22,000 grant awarded in October 2017, but the paperwork was never submitted to receive the funds. In addition, the bid for the equipment was awarded in December 2017, but the City ordered the gear after the February 2018 deadline passed, which cost the City an additional \$1,140.
<i>Criteria:</i>	Per the grant agreement, the City was required to provide copies of all obligation documents executed under the agreement and an inventory for equipment purchased. The grant expiration date was June 30, 2019, after which it had 45 days to submit the paperwork.
<i>Cause:</i>	Due to an oversight, the required paperwork was never submitted once the qualifying purchase was made.
<i>Effect:</i>	The City was at risk of losing funding if the oversight had not been discovered during the audit.
<i>Recommendation:</i>	We recommend that more effort be made to ensure that grant paperwork is submitted once all requirements are met. In addition, delays in ordering should be avoided when bids expire on a certain date.
<i>Management Response:</i>	<i>This was an oversight on the City's staff. Management will be more familiar with the requirement of Homeland Security Grants.</i>

Finding: 2018-006

<i>Condition:</i>	Upon inquiry of City staff regarding decreasing sanitation revenues, it was discovered that seven sanitation customers were being charged incorrectly, resulting in approximately \$11,000 in annual under billings. We also found the sewer rates effective July 1, 2017 were figured incorrectly, which resulted in over billings.
<i>Criteria:</i>	As sanitation is generally the most consistent month-to-month of any utility, a sudden substantial drop in revenue is an indication that a deficiency exists somewhere in the system. Sewer rates are established by city ordinance and should be adhered to.
<i>Cause:</i>	The sanitation rates for some customers were entered incorrectly when the City switched utility billing software, and the ordinance that established sewer rates was misinterpreted.
<i>Effect:</i>	The City lost sanitation revenues as a result of the under billings and overcharged sewer customers.
<i>Recommendation:</i>	The City should monitor revenues for unexplained fluctuations and research any discrepancies. More effort should be made to ensure utility rates are properly calculated and entered in the utility billing system correctly.
<i>Management Response:</i>	<i>Management will be diligently rechecking rates for commercial and residential customers. The City will also work with Veolia sanitation staff to make sure this is not an oversight on garbage collections.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-007

<i>Condition:</i>	The City purchased three vehicles, each in excess of \$20,000, without competitive bidding. For two of the vehicles, there was no invoice on file.
<i>Criteria:</i>	Kentucky bid law (KRS 424.260) requires that cities expending \$20,000 or more for a single purchase advertise for bids unless certain exceptions are met. These include declaration of an emergency, certifying that the item is available from only one source, or utilizing a state price contract. Proper internal controls for expenditures require an approved invoice prior to payment.
<i>Cause:</i>	The City assumed it was purchasing the vehicles under state price contract, but a copy of the state Master Agreement could not be provided by the vendors. Payments were made from purchase orders and supporting documents other than an invoice.
<i>Effect:</i>	The City likely was in violation of KRS 424.260 and did not follow proper internal control procedures.
<i>Recommendation:</i>	The Mayor, city council, and management in charge of purchasing should become thoroughly familiar with state regulations regarding obtaining goods and services. For audit purposes, the Kentucky Finance and Administration Cabinet highly recommend that local governments maintain on file a copy of the state Master Agreement. Payments should only be made from supporting invoices that are properly approved.
<i>Management Response:</i>	<i>The City has always been under the impression we were making the purchases under the state purchase contract. The vehicles have always been purchased at the state contract price. Management will make sure we have an invoice when vehicles are purchased. All vehicles will be bid in the future to comply with KRS.</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, 2018, 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 12, 2019, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated September 12, 2019, 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 (\$24,776 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 prior years, the City's General Fund had to transfer money to cover water plant expenses; although the City cashed in a CD to repay the temporary loan, at year-end, the O&M Fund still owed the General Fund \$269,835. 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. Four disbursements were not supported by purchase orders, nine invoices appeared to lack proper approval, one invoice was not cancelled, four disbursements were not supported by receiving reports, five had no supporting invoice, and three were not paid within thirty days. There were three 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. We also noted several instances where the check number recorded in the general ledger did not agree with the preprinted number on the check. In order to provide a proper trail, check numbers recorded in the general ledger should agree with the preprinted number on the check.

In the prior year three projects did not have the original bids on file. We noted no repeat occurrences in the current year. We also noted that the City continued to retain 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 12, 2019