

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2019
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, 2019, 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, 2019, 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, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and related notes on pages 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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

December 19, 2019

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 1,360,817	\$ 679,727	\$ 2,040,544
Investments	-	124,060	124,060
Receivables, net:			
Accounts - trade	-	394,131	394,131
Franchise fees	4,362	-	4,362
Miscellaneous	9,869	7,245	17,114
Taxes	80,619	-	80,619
Intergovernmental	32,749	-	32,749
Internal balances	269,335	(269,335)	-
Prepaid expenses	11,571	9,820	21,391
Total Current Assets	1,769,322	945,648	2,714,970
Noncurrent Assets			
Restricted cash	-	1,813,408	1,813,408
Capital assets:			
Land and construction in process	295,145	430,787	725,932
Other capital assets, net of depreciation	1,941,323	35,237,768	37,179,091
Total Noncurrent Assets	2,236,468	37,481,963	39,718,431
Total Assets	4,005,790	38,427,611	42,433,401
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	-	11,296	11,296
Deferred amounts related to pensions	258,339	131,383	389,722
Deferred amounts related to OPEB	108,230	48,294	156,524
Total Deferred Outflows of Resources	366,569	190,973	557,542
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	9,474	38,564	48,038
Accrued expenses	60	21,002	21,062
Interest payable	-	65,857	65,857
Accrued vacation and payroll	24,231	13,734	37,965
Due to employees	1,905	-	1,905
Unearned revenue	9,268	44,552	53,820
Bonds and loans payable	-	1,152,972	1,152,972
Total Current Liabilities	44,938	1,336,681	1,381,619
Noncurrent Liabilities			
Customer deposits payable	-	272,635	272,635
Due to Greenshore customers	-	23,970	23,970
Loans payable	-	9,146,310	9,146,310
Revenue bonds payable	-	10,599,672	10,599,672
Net pension liability	951,521	512,660	1,464,181
Net OPEB liability	279,652	149,453	429,105
Total Noncurrent Liabilities	1,231,173	20,704,700	21,935,873
Total Liabilities	1,276,111	22,041,381	23,317,492
<u>Deferred Inflows of Resources</u>			
Deferred amounts related to pensions	24,592	20,256	44,848
Deferred amounts related to OPEB	57,100	28,361	85,461
Total Deferred Inflows of Resources	81,692	48,617	130,309
<u>Net Position</u>			
Net investment in capital assets	2,236,468	14,756,927	16,993,395
Restricted	117,932	1,664,833	1,782,765
Unrestricted	660,156	106,826	766,982
Total Net Position	\$ 3,014,556	\$ 16,528,586	\$ 19,543,142

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
General government	\$ 283,353	\$ -	\$ 4,723	\$ -	\$ (278,630)	\$ -	\$ (278,630)
Streets and maintenance	147,013	-	-	57,547	(89,466)	-	(89,466)
Police department	626,805	1,445	33,932	-	(591,428)	-	(591,428)
Fire department	237,309	68,429	34,493	-	(134,387)	-	(134,387)
Total Governmental Activities	1,294,480	69,874	73,148	57,547	(1,093,911)	-	(1,093,911)
<u>Business-Type Activities</u>							
Water	3,588,283	3,509,716	-	56,323	-	(22,244)	(22,244)
Sewer	588,515	481,844	-	4,913	-	(101,758)	(101,758)
Sanitation	427,161	332,944	-	-	-	(94,217)	(94,217)
Total Business-Type Activities	4,603,959	4,324,504	-	61,236	-	(218,219)	(218,219)
Total Primary Government	\$ 5,898,439	\$ 4,394,378	\$ 73,148	\$ 118,783	\$ (1,093,911)	\$ (218,219)	\$ (1,312,130)
<u>General Revenues</u>							
Property taxes					\$ 528,185	\$ -	\$ 528,185
Insurance premium taxes					286,979	-	286,979
Franchise fees					47,371	-	47,371
Licenses and permits					36,124	-	36,124
Interest income					5,223	28,353	33,576
Miscellaneous					32,277	51,149	83,426
Disposal of fixed assets					329	15,725	16,054
Total					936,488	95,227	1,031,715
Changes in Net Position					(157,423)	(122,992)	(280,415)
Net Position - Beginning of Year					3,171,979	16,651,578	19,823,557
Net Position - End of Year					\$ 3,014,556	\$ 16,528,586	\$ 19,543,142

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2019**

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 1,360,817
Receivables, net:	
Franchise fees	4,362
Miscellaneous	9,869
Taxes	80,619
Intergovernmental	10,749
Prepaid expenses	11,571
Due from other funds	269,335
Total Assets	\$ 1,747,322
<u>Liabilities</u>	
Accounts payable	\$ 9,474
Accrued expenses	60
Accrued payroll	8,585
Due to employees	1,905
Unearned revenue	9,268
Total Liabilities	29,292
<u>Fund Balance</u>	
Nonspendable	11,571
Restricted	117,932
Assigned	115,170
Unassigned	1,473,357
Total Fund Balance	1,718,030
Total Liabilities and Fund Balance	\$ 1,747,322

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

Total Governmental Fund Balance	\$ 1,718,030
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.	2,236,468
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.	284,877
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	
Accrued vacation	(15,646)
Net pension liability	(951,521)
Net OPEB liability	(279,652)
Total Net Position of Governmental Activities	\$ 3,014,556

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, 2019

	General Fund
<u>Revenues</u>	
Property taxes	\$ 528,185
Insurance premium taxes	286,979
Licenses and permits	36,124
Rental income	18,435
Interest income	5,223
Miscellaneous	5,964
Donations	23,493
Franchise fees	47,371
Fire department subscription fees and runs	68,429
Intergovernmental revenues	107,202
Total Revenues	1,127,405
<u>Expenditures</u>	
Current:	
General government:	
Salaries and benefits	65,538
Administrative travel	942
Utilities	21,433
Insurance	5,033
Office expense	3,901
Advertising and printing	2,847
Professional fees	11,727
Repairs and maintenance	6,077
Supplies	3,429
Miscellaneous	1,501
Police department	450,711
Fire department	122,060
Streets and maintenance	143,310
Capital outlay	86,825
Total Expenditures	925,334
Excess (Deficiency) of Revenues Over Expenditures	202,071
<u>Other Financing Sources</u>	
Proceeds from sale of fixed assets	329
Insurance recoveries - impaired assets	9,321
Total Other Financing Sources	9,650
Net Changes in Fund Balance	211,721
Fund Balance - Beginning of Year	1,506,309
Fund Balance - End of Year	\$ 1,718,030

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, 2019**

Net Changes in Fund Balance - Governmental Fund	\$ 211,721
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Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(214,286)
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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.	(151,599)
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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.	<u>(3,259)</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ (157,423)</u></u>
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The accompanying notes are an integral part of this financial statement.

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 432,612	\$ 112,976	\$ 134,139	\$ 679,727
Investments	85,850	31,434	6,776	124,060
Receivables, net:				
Accounts - trade	316,231	46,523	31,377	394,131
Miscellaneous	4,459	1,393	1,393	7,245
Due from other funds	-	4,718	2,287	7,005
Prepaid expenses	3,530	951	5,339	9,820
Total Current Assets	842,682	197,995	181,311	1,221,988
Noncurrent Assets				
Restricted cash	1,742,809	70,599	-	1,813,408
Capital assets:				
Land and construction in process	291,426	139,361	-	430,787
Other capital assets, net of depreciation	30,720,530	4,188,801	328,437	35,237,768
Total Noncurrent Assets	32,754,765	4,398,761	328,437	37,481,963
Total Assets	33,597,447	4,596,756	509,748	38,703,951
Deferred Outflows of Resources				
Deferred amount on debt refundings	8,197	3,099	-	11,296
Deferred amounts related to pensions	98,464	13,853	19,066	131,383
Deferred amounts related to OPEB	36,194	5,092	7,008	48,294
Total Deferred Outflows of Resources	142,855	22,044	26,074	190,973
Liabilities				
Current Liabilities				
Accounts payable	28,480	6,266	3,818	38,564
Due to other funds	276,340	-	-	276,340
Accrued expenses	21,002	-	-	21,002
Interest payable	58,884	6,973	-	65,857
Accrued vacation and payroll	10,592	1,354	1,788	13,734
Unearned revenue	44,552	-	-	44,552
Bonds and loans payable	967,692	139,897	45,383	1,152,972
Total Current Liabilities	1,407,542	154,490	50,989	1,613,021
Noncurrent Liabilities				
Customer deposits payable	272,635	-	-	272,635
Due to Greenshore customers	23,970	-	-	23,970
Loans payable	7,345,683	1,703,864	96,763	9,146,310
Revenue bonds payable	10,208,013	371,659	20,000	10,599,672
Net pension liability	384,261	54,038	74,361	512,660
Net OPEB liability	112,022	15,753	21,678	149,453
Total Noncurrent Liabilities	18,346,584	2,145,314	212,802	20,704,700
Total Liabilities	19,754,126	2,299,804	263,791	22,317,721
Deferred Inflows of Resources				
Deferred amounts related to pensions	15,182	2,135	2,939	20,256
Deferred amounts related to OPEB	21,258	2,990	4,113	28,361
Total Deferred Inflows of Resources	36,440	5,125	7,052	48,617
Net Position				
Net investment in capital assets	12,474,795	2,115,841	166,291	14,756,927
Restricted for capital and debt service	1,556,024	102,033	6,776	1,664,833
Unrestricted	(81,083)	95,997	91,912	106,826
Total Net Position	\$ 13,949,736	\$ 2,313,871	\$ 264,979	\$ 16,528,586

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, 2019

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
<u>Operating Revenues</u>				
Charges for services	\$ 3,354,082	\$ 475,667	\$ 329,936	\$ 4,159,685
Penalty charges	41,725	5,727	3,008	50,460
Connection fees	113,909	450	-	114,359
Total Operating Revenues	3,509,716	481,844	332,944	4,324,504
<u>Operating Expenses</u>				
Salaries and benefits	280,630	43,454	56,231	380,315
Maintenance and supplies	54,637	29,600	5,586	89,823
Chemicals	53,185	-	-	53,185
Contract operations	1,088,232	193,718	209,674	1,491,624
Professional fees	16,201	3,870	1,942	22,013
Office and advertising	40,206	14,428	14,447	69,081
Landfill fees	-	-	71,471	71,471
Depreciation	1,154,888	195,397	54,041	1,404,326
Rental expense	4,950	3,025	4,550	12,525
Insurance	31,284	9,908	1,734	42,926
Utilities	356,667	60,588	1,213	418,468
Miscellaneous	970	240	241	1,451
Total Operating Expenses	3,081,850	554,228	421,130	4,057,208
Operating Income (Loss)	427,866	(72,384)	(88,186)	267,296
<u>Non-Operating Revenues (Expenses)</u>				
Interest income	24,842	3,255	256	28,353
Rental income	47,305	-	-	47,305
Other income	1,514	465	1,865	3,844
Gain on disposal of fixed assets	(2,468)	2,220	15,973	15,725
Debt service repayments	9,573	-	-	9,573
Interest expense	(506,433)	(34,287)	(6,031)	(546,751)
Total Non-Operating Revenues (Expenses)	(425,667)	(28,347)	12,063	(441,951)
Income (Loss) Before Capital Contributions	2,199	(100,731)	(76,123)	(174,655)
Capital Contributions	46,750	4,913	-	51,663
Changes in Net Position	48,949	(95,818)	(76,123)	(122,992)
Net Position - Beginning of Year	13,900,787	2,409,689	341,102	16,651,578
Net Position - End of Year	\$ 13,949,736	\$ 2,313,871	\$ 264,979	\$ 16,528,586

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, 2019

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
Cash Flows from Operating Activities:				
Cash received from customers and others	\$ 3,497,534	\$ 478,035	\$ 328,750	\$ 4,304,319
Cash payments to suppliers for goods and services	(1,616,690)	(303,078)	(309,488)	(2,229,256)
Cash payments to employees for services	(238,944)	(37,574)	(48,026)	(324,544)
Net Cash Provided (Used) by Operating Activities	<u>1,641,900</u>	<u>137,383</u>	<u>(28,764)</u>	<u>1,750,519</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(84,426)	(48,091)	(29,922)	(162,439)
Proceeds from sale of capital assets	1,656	2,220	15,973	19,849
Capital contributions	-	4,913	-	4,913
Payment on Greenshore liability	(1,521)	-	-	(1,521)
Proceeds from debt	-	14,336	-	14,336
Principal paid on debt	(951,597)	(109,490)	(44,603)	(1,105,690)
Interest paid on debt	(512,670)	(34,664)	(6,031)	(553,365)
Net Cash Used by Capital and Related Financing Activities	<u>(1,548,558)</u>	<u>(170,776)</u>	<u>(64,583)</u>	<u>(1,783,917)</u>
Cash Flows from Noncapital Financing Activities:				
Interfund loans	4,132	(4,632)	-	(500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>4,132</u>	<u>(4,632)</u>	<u>-</u>	<u>(500)</u>
Cash Flows from Investing Activities:				
Interest income	24,700	875	256	25,831
Other non-operating income and expenses	58,392	465	1,865	60,722
Net Cash Provided by Investing Activities	<u>83,092</u>	<u>1,340</u>	<u>2,121</u>	<u>86,553</u>
Net Increase (Decrease) in Cash and Cash Equivalents	180,566	(36,685)	(91,226)	52,655
Cash and Cash Equivalents - Beginning of Year	2,080,705	251,694	232,141	2,564,540
Cash and Cash Equivalents - End of Year	<u>\$ 2,261,271</u>	<u>\$ 215,009</u>	<u>\$ 140,915</u>	<u>\$ 2,617,195</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 427,866	\$ (72,384)	\$ (88,186)	\$ 267,296
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,154,888	195,397	54,041	1,404,326
Change in assets and liabilities:				
Receivables, net	(12,694)	(3,809)	(4,194)	(20,697)
Prepaid expenses	32,936	9,083	(3,479)	38,540
Deferred outflows related to pensions and OPEB	17,253	2,399	3,253	22,905
Accounts payable	(16,194)	3,216	4,849	(8,129)
Accrued expenses	12,900	-	-	12,900
Other liabilities	466	(44)	(81)	341
Net pension and OPEB liabilities	20,489	2,959	4,241	27,689
Deferred inflows related to pensions and OPEB	3,990	566	792	5,348
Total Adjustments	<u>1,214,034</u>	<u>209,767</u>	<u>59,422</u>	<u>1,483,223</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,641,900</u>	<u>\$ 137,383</u>	<u>\$ (28,764)</u>	<u>\$ 1,750,519</u>
Schedule of Noncash Transactions:				
Donated capital assets	\$ 46,750	\$ -	\$ -	\$ 46,750

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, 2019**

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, 2019**

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, 2019**

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 \$9,321 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, 2019, the allowances for uncollectible trade and property tax receivables were \$31,871 and \$14,508, 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, 2019**

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, 2019**

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 \$.33 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.

New Accounting Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations, and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, were effective for the fiscal year; however, these had no material impact on the City's financial statements.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

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, 2019, the reported amount of the City's cash and cash equivalents was \$3,853,952 and the bank balance was \$3,870,326. 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, \$500,000 of the City's deposits was insured and \$3,145,342 was collateralized with securities held by the pledging financial institution on behalf of the City, but not in the City's name. \$208,610 was uninsured and uncollateralized. 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, \$6,776 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 \$117,284 is uninsured and unregistered. These investments are reported at cost, which was \$124,060 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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE C - CASH AND INVESTMENTS (CONCLUDED)

Reconciliation of Cash

For purposes of the Statement of Cash Flows on page 11, cash and cash equivalents as of June 30, 2019 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 432,612	\$112,976	\$134,139	\$ 679,727
Restricted cash	1,742,809	70,599	-	1,813,408
Investments	85,850	31,434	6,776	124,060
Total	<u>\$2,261,271</u>	<u>\$215,009</u>	<u>\$140,915</u>	<u>\$2,617,195</u>

NOTE D - LONG-TERM DEBT

Bonds Payable

The construction costs of the City's water and sewer facilities have been financed by the issuance of 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, and are secured by the statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes. In the event of default, any owner of current bonds may file suit and the court may appoint a receiver with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding bonds.

The original amount of the bond issues, the issue dates, interest rates, and outstanding balances at June 30, 2019 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	\$3,981,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,213,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,172,100
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,778,500
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 35,000
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$1,725,000

R – Denotes refunding bond issue

Loans Payable

During the year ended June 30, 1999, the City entered into a loan agreement with KIA 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 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 was paid in full at year-end.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE D - LONG-TERM DEBT (CONTINUED)

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 \$100,916.

In 2008, the City finalized a KIA loan 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 \$1,978,226.

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 \$1,148,741.

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 \$1,900,959.

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 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 balances at year-end were \$369,575 and \$185,861, respectively.

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 \$2,372,695.

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 \$496,838.

During the year ended June 30, 2017, the City secured a \$1.28 million loan from KIA for phosphorus removal and effluent monitoring. The loan was finalized in the current fiscal year and 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. The loan balance at year-end was \$1,248,325.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE D - LONG-TERM DEBT (CONCLUDED)

In April 2018, the City obtained a \$156,749 loan from Cecilian Bank for a 2018 Freightliner garbage truck, which serves as collateral. The loan calls for ten semi-annual payments of \$17,017, which include interest at 3%. The loan balance at year-end was \$127,146.

All loans are notes from direct borrowings.

Debt Service Requirements

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2019, including interest payments are as follows:

Fiscal Year Ending June 30,	Business-Type Activities			
	Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2020	\$ 370,000	\$ 410,366	\$ 782,972	\$ 96,239
2021	387,900	399,200	791,461	87,748
2022	385,700	383,734	800,051	79,160
2023	405,200	368,479	793,692	70,577
2024	423,100	352,446	752,978	62,318
2025 - 2029	1,949,600	1,526,050	3,509,300	202,161
2030 - 2034	1,723,100	1,195,914	2,080,609	63,603
2035 - 2039	1,880,200	855,540	418,219	6,426
2040 - 2044	2,278,200	462,594	-	-
2045 - 2049	1,014,100	85,627	-	-
2050	87,500	2,625	-	-
Totals	<u>\$10,904,600</u>	<u>\$6,042,575</u>	<u>\$9,929,282</u>	<u>\$668,232</u>

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due In One Year
<u>Business-Type Activities</u>					
Bonds payable	\$11,257,800	\$ -	\$ 353,200	\$10,904,600	\$ 370,000
Loans payable	10,667,436	14,336	752,490	9,929,282	782,972
Premium	70,910	-	5,838	65,072	5,836
Net bonds and loans payable	21,996,146	14,336	1,111,528	20,898,954	1,158,808
Customer deposits	273,420	74,600	75,385	272,635	-
Due to Greenshore	25,491	20	1,541	23,970	-
	<u>\$22,295,057</u>	<u>\$88,956</u>	<u>\$1,188,454</u>	<u>\$21,195,559</u>	<u>\$1,158,808</u>

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE E - RESTRICTED NET POSITION

Restricted net position of the Governmental Activities included \$113,194 for road aid and \$4,738 for drug enforcement activities, while restricted net position of the Business-Type Activities included \$1,664,833 for capital and debt service.

NOTE F - FUND BALANCE

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 11,571
Restricted:	
Road aid	113,194
Drug enforcement	4,738
Total Restricted	<u>117,932</u>
Assigned:	
Industrial development	109,405
Fire department	5,765
Total Assigned	<u>115,170</u>
Unassigned	<u>1,473,357</u>
Total Fund Balance	<u>\$1,718,030</u>

NOTE G - UNEARNED REVENUE

The City has two five-year tower lease agreements, for which it receives annual rent in advance of the term of the lease. Accordingly, \$44,552 is reported as unearned revenue on the Statements of Net Position for the O&M Fund and business-type activities.

The General Fund and governmental activities reported \$9,268 in unearned revenue for insurance premium taxes received but not yet earned.

NOTE H - INTERFUND ACTIVITY

The O&M Fund repaid \$500 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	\$269,335	Operating loan
O&M Fund	WWT Fund	4,718	Utility sales
O&M Fund	Sanitation Fund	2,287	Utility sales

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE I - 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		Age 57+ and sum of service years plus age = 87
	Reduced retirement:	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		Age 57+ and sum of service years plus age = 87
	Reduced retirement:	Not available

CERS Hazardous

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE I - PENSION PLANS (CONTINUED)

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 21.48% (16.22% for pension and 5.26% for health insurance) and 35.34% (24.87% pension; 10.47% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2019.

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, 2019, the City reported a liability of \$1,464,181 for its proportionate share of the net pension liability for CERS, which included \$778,645 for non-hazardous and \$685,536 for hazardous. The total pension liability, net pension liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date of June 30, 2017 to the plan's fiscal year ended June 30, 2018, using generally accepted actuarial principles. 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, 2017 through June 30, 2018. At June 30, 2018, the City's proportion was 0.012785% non-hazardous and 0.028346% hazardous, an increase of 0.000574% and 0.000768%, respectively, over the prior year.

For the year ended June 30, 2019, the City recognized total pension expense of \$278,054 for CERS, which included \$128,419 for non-hazardous and \$149,635 for hazardous.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE I - 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	\$ 79,954	\$11,398
Changes of assumptions	149,069	-
Net difference between projected and actual earnings on pension plan investments	-	17,068
Changes in proportion and differences between City contributions and proportionate share of contributions	64,708	16,382
City contributions subsequent to the measurement date	95,991	-
	<u>\$389,722</u>	<u>\$44,848</u>

\$95,991 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, 2020. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2020	\$169,771
2021	93,109
2022	(6,724)
2023	(7,273)

Actuarial assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions (no change from June 30, 2017), applied to all periods included in the measurement:

Inflation Rate:	2.3%
Projected Salary Increases:	3.05%, average
Investment Rate of Return:	6.25% for CERS non-hazardous and hazardous

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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE I - 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 Large Cap	5%	4.50%
US Mid Cap	6%	4.50%
US Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5%	7.25%
Global Bonds	4%	3.00%
Global IG Credit	2%	3.75%
High Yield	7%	5.50%
Emerging Market Debt	5%	6.00%
Illiquid Private	10%	8.50%
Real Estate	5%	9.00%
Absolute Return	10%	5.00%
Real Return	10%	7.00%
Private Equity	10%	6.50%
Cash Equivalent	2%	1.50%
Total	100%	6.09%

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-five year closed 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:

	<u>1% Decrease 5.25%</u>	<u>Current Discount 6.25%</u>	<u>1% Increase 7.25%</u>
Non-hazardous	\$980,234	\$778,645	\$609,750
Hazardous	\$858,931	\$685,536	\$542,192

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, 2019**

NOTE J - 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 I) 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 21.48% (16.22% for pension and 5.26% for health insurance) and 35.34% (24.87% pension; 10.47% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2019.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE J - 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, 2019, the City reported a liability of \$429,105 for its proportionate share of the net OPEB liability for CERS, which included \$226,995 for non-hazardous and \$202,110 for hazardous. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled forward from the valuation date of June 30, 2017 to the plan's fiscal year ended June 30, 2018, 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, 2017 through June 30, 2018. At June 30, 2018, the City's proportion was 0.012785% non-hazardous and 0.028348% hazardous, respectively.

For the year ended June 30, 2019, the City recognized total OPEB expense of \$64,847 for CERS, which included \$30,211 for non-hazardous and \$34,636 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	\$ -	\$49,039
Changes of assumptions	107,356	1,077
Net difference between projected and actual earnings on OPEB plan investments	-	34,850
Changes in proportion and differences between City contributions and proportionate share of contributions	9,797	495
City contributions subsequent to the measurement date	39,371	-
	<u>\$156,524</u>	<u>\$85,461</u>

\$39,371 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, 2020. 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
2020	\$14,911
2021	14,911
2022	3,755
2023	(74)
2024	(723)
Thereafter	(1,088)

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE J - 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 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare Trend Rates (age 65 and over):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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.

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 I (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 5.85% for CERS Non-hazardous and 5.97% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-five 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 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2018. 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, 2019**

NOTE J - 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 5.85% for non-hazardous and 5.97% 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 4.85%	Current Discount 5.85%	1% Increase 6.85%
Non-hazardous	\$294,830	\$226,995	\$169,212
	4.97%	5.97%	6.97%
Hazardous	\$280,942	\$202,110	\$139,002

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	\$169,000	\$226,995	\$295,355
Hazardous	\$137,646	\$202,110	\$281,950

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 K - 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 two years.

NOTE L - DEFICIT FUND BALANCE/NET POSITION

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE M - CAPITAL ASSETS

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

	July 1, 2018	Additions	Deletions	June 30, 2019
<u>Governmental Activities</u>				
Not Depreciated:				
Land	\$ 295,145	\$ -	\$ -	\$ 295,145
Subtotal	295,145	-	-	295,145
Depreciated:				
Buildings and improvements	961,971	7,950	-	969,921
Furniture and fixtures	70,810	-	-	70,810
Equipment	878,327	5,737	-	884,064
Vehicles	1,095,946	73,138	(16,858)	1,152,226
Parks	168,530	-	-	168,530
Infrastructure	1,893,471	-	-	1,893,471
Subtotal	5,069,055	86,825	(16,858)	5,139,022
Accumulated Depreciation	2,913,446	301,111	(16,858)	3,197,699
Net Capital Assets	\$ 2,450,754	\$ (214,286)	\$ -	\$ 2,236,468
<u>Business-Type Activities</u>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Construction in process	85,333	70,293	-	155,626
Subtotal	360,494	70,293	-	430,787
Depreciated:				
Buildings and improvements	311,125	-	-	311,125
Equipment	1,174,013	24,747	(210,805)	987,955
Vehicles	204,120	-	(71,361)	132,759
Treatment plants	15,232,268	12,714	-	15,244,982
Distribution system	27,599,660	46,750	-	27,646,410
Wastewater plant	7,261,879	37,191	-	7,299,070
Subtotal	51,783,065	121,402	(282,166)	51,622,301
Accumulated Depreciation	15,258,249	1,404,326	(278,042)	16,384,533
Net Capital Assets	\$36,885,310	\$(1,212,631)	\$ (4,124)	\$35,668,555

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2018	Additions	Deletions	June 30, 2019
<u>Governmental Activities</u>				
Buildings and improvements	\$ 460,161	\$ 36,868	\$ -	\$ 497,029
Furniture and fixtures	64,877	1,533	-	66,410
Equipment	530,153	56,694	-	586,847
Vehicles	784,941	64,951	(16,858)	833,034
Parks	102,272	9,189	-	111,461
Infrastructure	971,042	131,876	-	1,102,918
Total	\$ 2,913,446	\$ 301,111	\$ (16,858)	\$ 3,197,699

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE M - CAPITAL ASSETS (CONCLUDED)

	July 1, 2018	Additions	Deletions	June 30, 2019
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 175,082	\$ 10,653	\$ -	\$ 185,735
Equipment	639,459	93,228	(206,681)	526,006
Vehicles	179,550	5,459	(71,361)	113,648
Treatment plants	4,220,399	390,183	-	4,610,582
Distribution system	7,106,457	712,086	-	7,818,543
Wastewater plant	2,937,302	192,717	-	3,130,019
Total	<u>\$15,258,249</u>	<u>\$1,404,326</u>	<u>\$ (278,042)</u>	<u>\$16,384,533</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	\$157,201	O&M	\$1,154,888
Streets and maintenance	3,702	Wastewater	195,397
Police department	24,960	Sanitation	54,041
Fire department	115,248		
	<u>\$301,111</u>		<u>\$1,404,326</u>

NOTE N - COMMITMENTS AND CONTINGENCIES

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

The City received surplus military equipment as part of a federal government program that disburses the equipment to authorized entities. Under the terms of the program, the City must retain the equipment for use in the police department or return the equipment to the federal government. Due to the restrictions on disposition, these items have not been booked as City assets.

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 \$1,519,577, 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 2019-2020 is \$1,555,194, 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, 2019**

NOTE N - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

The City has a contract with the City of Irvington, Kentucky (Irvington), whereby Irvington pays the City for water usage at a rate that is adjustable annually based on the costs of operating the water plant. Irvington currently pays \$2.35 per thousand gallons of consumption, subject to a minimum of 3 million gallons per month. For the year ended June 30, 2019, the City billed \$159,069 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, 2019, the City billed Cloverport \$147,168 for water.

Prior 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 \$760,280 KIA loan.

NOTE O - SUBSEQUENT EVENTS

In August 2019, the City was awarded a sidewalk grant in the amount of \$400,000 (\$320,000 in grant proceeds and \$80,000 local match).

In November 2019, the City issued \$6.675 million in refunding revenue bonds to pay off the 2006A and 2006B series bonds totaling \$6.194 million, reducing the interest rate from 4.125% to 2.25 - 3.00%.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
<u>Revenues</u>				
Property taxes	\$ 531,726	\$ 525,011	\$ 528,185	\$ 3,174
Insurance premium taxes	269,500	288,508	286,979	(1,529)
Licenses and permits	44,445	34,146	36,124	1,978
Rental income	12,995	19,155	18,435	(720)
Interest income	3,236	4,593	5,223	630
Miscellaneous	5,578	6,020	5,964	(56)
Donations	26,806	17,850	23,493	5,643
Franchise fees	47,728	48,914	47,371	(1,543)
Fire department subscription fees and runs	60,315	62,814	68,429	5,615
Intergovernmental revenues	99,609	106,063	107,202	1,139
Total Revenues	1,101,938	1,113,074	1,127,405	14,331
<u>Expenditures</u>				
Current:				
General government	148,436	129,445	122,428	7,017
Police department	476,179	469,983	450,711	19,272
Fire department	90,855	125,288	122,060	3,228
Streets and maintenance	150,542	144,676	143,310	1,366
Capital outlay	302,288	103,300	86,825	16,475
Total Expenditures	1,168,300	972,692	925,334	47,358
Excess (Deficiency) of Revenues Over Expenditures	(66,362)	140,382	202,071	61,689
<u>Other Financing Sources</u>				
Proceeds from sale of fixed assets	2,300	329	329	-
Insurance recoveries	-	13,252	9,321	(3,931)
Total Other Financing Sources	2,300	13,581	9,650	(3,931)
Net Changes in Fund Balance	(64,062)	153,963	211,721	57,758
Fund Balance - Beginning of Year	811,939	685,482	1,515,270	829,788
Fund Balance - End of Year	\$ 747,877	\$ 839,445	\$ 1,726,991	\$ 887,546

See accompanying notes to budgetary comparison schedule.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

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.

**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>2019</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	0.01279%	0.01221%	0.01066%	0.01286%	0.01257%
City's proportionate share of the net pension liability	\$ 778,645	\$ 714,747	\$ 524,876	\$ 552,942	\$ 408,000
City's covered payroll	\$ 316,882	\$ 297,320	\$ 254,305	\$ 300,054	\$ 288,467
City's proportionate share of the net pension liability as a percentage of its covered payroll	245.72%	240.40%	206.40%	184.28%	141.44%
Plan fiduciary net position as a percentage of the total pension liability	53.542%	53.325%	55.503%	59.968%	66.801%
<u>Hazardous</u>					
City's proportion of the net pension liability	0.02835%	0.02758%	0.02736%	0.02043%	0.02310%
City's proportionate share of the net pension liability	\$ 685,536	\$ 616,997	\$ 469,559	\$ 313,604	\$ 278,000
City's covered payroll	\$ 157,904	\$ 151,388	\$ 142,266	\$ 104,496	\$ 116,989
City's proportionate share of the net pension liability as a percentage of its covered payroll	434.15%	407.56%	330.06%	300.11%	237.63%
Plan fiduciary net position as a percentage of the total pension liability	49.265%	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; therefore, the City's covered payroll reported above differs from the City's fiscal year payroll as reported in the Schedule of City Pension Contributions.

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

See accompanying notes to pension and OPEB schedules.

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

Last 10 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>					
Contractually required contribution	\$ 40,300	\$ 45,884	\$ 41,476	\$ 31,585	\$ 38,257
Contributions in relation to the contractually required contribution	<u>(40,300)</u>	<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>	<u>\$ -</u>
City's covered payroll	\$ 248,458	\$ 316,882	\$ 297,320	\$ 254,305	\$ 300,054
Contributions as a percentage of covered payroll	16.22%	14.48%	13.95%	12.42%	12.75%
<u>Hazardous</u>					
Contractually required contribution	\$ 55,691	\$ 35,055	\$ 32,866	\$ 28,823	\$ 21,662
Contributions in relation to the contractually required contribution	<u>(55,691)</u>	<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>	<u>\$ -</u>
City's covered payroll	\$ 223,929	\$ 157,904	\$ 151,388	\$ 142,266	\$ 104,496
Contributions as a percentage of covered payroll	24.87%	22.20%	21.71%	20.26%	20.73%

Note: The data provided in this schedule is based on the corresponding fiscal year and differs from the covered payroll reports in the Schedule of the City's Proportionate Share of the Net Pension Liability.

Contractually required contributions listed above for CERS exclude the portion allocated to the CERS insurance fund.

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

See accompanying notes to pension and OPEB schedules.

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

	<u>2019</u>	<u>2018</u>
<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>		
<u>Non-Hazardous</u>		
City's proportion of the net OPEB liability	0.01279%	0.01221%
City's proportionate share of the net OPEB liability	\$ 226,995	\$ 245,483
City's covered payroll	\$ 316,882	\$ 297,320
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	57.622%	52.394%
<u>Hazardous</u>		
City's proportion of the net OPEB liability	0.02835%	0.02758%
City's proportionate share of the net OPEB liability	\$ 202,110	\$ 227,979
City's covered payroll	\$ 157,904	\$ 151,388
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	128.00%	150.59%
Plan fiduciary net position as a percentage of the total OPEB liability	64.244%	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; therefore, the City's covered payroll reported above differs from the City's fiscal year payroll as reported in the Schedule of City OPEB Contributions.

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

See accompanying notes to pension and OPEB schedules.

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

Last 10 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2019</u>	<u>2018</u>
<u>Non-Hazardous</u>		
Contractually required contribution	\$ 13,069	\$ 14,893
Contributions in relation to the contractually required contribution	<u>(13,069)</u>	<u>(14,893)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 248,458	\$ 316,882
Contributions as a percentage of covered payroll	5.26%	4.70%
 <u>Hazardous</u>		
Contractually required contribution	\$ 23,445	\$ 14,764
Contributions in relation to the contractually required contribution	<u>(23,445)</u>	<u>(14,764)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 223,929	\$ 157,904
Contributions as a percentage of covered payroll	10.47%	9.35%

Note: The data provided in this schedule is based on the corresponding fiscal year and differs from the covered payroll reported in the Schedule of the City's Proportionate Share of the Net OPEB Liability.

Contractually required contributions listed above for CERS exclude the portion allocated to the CERS pension fund.

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

See accompanying notes to pension and OPEB schedules.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO PENSION AND OPEB SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE A - PENSIONS

Changes in Assumptions and Benefit Terms:

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 was determined using these updated benefit provisions.

NOTE B - OPEB

Changes in Assumptions and Benefit Terms:

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, was determined using these updated benefit provisions.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 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 Responses as items 2019-001 to 2019-003 and 2019-006, 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 Responses as items 2019-004 through 2019-006.

We noted certain additional matters that we have reported to management in a separate letter dated December 19, 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 Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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

December 19, 2019

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

Finding: 2019-001 (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: 2019-002 (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>	Although City staff made numerous adjustments to correct its books prior to the audit, material adjustments were still required as a result of the audit.
<i>Effect:</i>	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.
<i>Management Response:</i>	<i>The City is in the process of cross-training and familiarizing office staff.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

Finding: 2019-003 (Repeat)

<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.
<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.
<i>Cause:</i>	The sanitation rates for some customers were entered incorrectly when the City switched utility billing software.
<i>Effect:</i>	The City lost sanitation revenues as a result of the under billings.
<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 entered in the utility billing system correctly.
<i>Management Response:</i>	<i>This was corrected in September 2019 when it was discovered during the prior audit.</i>

Finding: 2019-004 (Repeat)

<i>Condition:</i>	The City purchased two vehicles and a mixer for the wastewater treatment plant, each in excess of \$20,000, without competitive bidding.
<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 or utilizing a state price contract, but not single sources.
<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. While the City obtained quotes for the mixer from two vendors, bids were not obtained because retailers for that brand are not allowed to bid against each other. The replacement mixer had to be the same brand as the original in order to fit the railing system in the sludge holding tank.
<i>Effect:</i>	The City was in violation of KRS 424.260.
<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. Although the City was not aware of other vendors able to provide the replacement mixer, it does not negate the requirement to solicit bids.
<i>Management Response:</i>	<i>The City has always been under the impression we were making the purchases under the state purchase contract. All vehicles will be bid in the future to comply with KRS. The City is aware of state regulations (KRS 424.260). The vendor concerning the mixer has several sales representatives across the United States; however a sales representative from another area can not quote or bid against a sales representative from that area or region. Therefore Xylem was our only source.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

Finding: 2019-005

<i>Condition:</i>	The City's bank deposits exceeded amounts covered by the National Credit Union Administration (NCUA) or pledged securities.
<i>Criteria:</i>	Per KRS 91A.060, the amount of funds on deposit in an official depository shall be fully insured by deposit insurance or collateralized to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).
<i>Cause:</i>	Accounts were opened at a federal credit union to take advantage of higher interest rates.
<i>Effect:</i>	The City may not have been in compliance with state law, and there was a risk that a portion of the City's deposits could not have been recaptured in the event of a credit union closure.
<i>Recommendation:</i>	The City should ensure that the credit union can pledge securities to cover any amounts in excess of the \$250,000 NCUA coverage; otherwise deposits should be moved to another bank or credit union with adequate coverage.
<i>Management Response:</i>	<i>The City will make arrangements with the financial institution to comply with KRS 91A.060 or reduce the City's deposits with the Federal Credit Union and deposit the overage in another Federal Credit Union or bank.</i>

Finding: 2019-006

<i>Condition:</i>	The City remitted less sales and utility tax than it collected to the state.
<i>Criteria:</i>	KRS 139.200 imposes a 6% sales tax on utility services sold to commercial customers, and KRS 160.613 imposes a 3% utility tax on water services sold to all customers.
<i>Cause:</i>	Taxable sales were understated on the sales and utility tax reports.
<i>Effect:</i>	The City was not in compliance with state sales and utility tax laws.
<i>Recommendation:</i>	We recommend that the City amend prior sales and utility tax returns and remit the underpaid taxes to the state. In the future, the City should ensure that the amounts remitted are in agreement with the amount collected.
<i>Management Response:</i>	<i>The City will amend prior sales and utility tax returns to remit the correct amount of taxes to the state. Going forward, the City will utilize a new spreadsheet to ensure that the amounts remitted are correct.</i>

MANAGEMENT LETTER



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MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2019, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal control and operating efficiency. The paragraphs below summarize our comments and suggestions regarding the matters. A separate report dated December 19, 2019, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated December 19, 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 (\$31,590 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, and at year-end, the O&M Fund still owed the General Fund \$269,335. 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. Six disbursements were not supported by purchase orders, eleven invoices appeared to lack proper approval, five invoices were not cancelled, four disbursements were not supported by receiving reports, three had no supporting invoice, and four were not paid within thirty days. The person receiving the goods or services should sign the invoice to indicate receipt, and every effort should be made to obtain a purchase order prior to the purchase. Payments should only be made from supporting invoices that are properly approved, and invoices should be cancelled to prevent duplicate payment. In the prior year, we also noted several instances where the check number recorded in the general ledger did not agree with the preprinted number on the check. This was corrected in the current year.

As in the prior year, we 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.

CURRENT YEAR

The personnel policy states that a maximum of forty hours above the current annual accrual may be accrued, and after the maximum is reached, no additional accruals are allowed. Three employees continued to accrue vacation after the maximum was reached. We recommend that the City follow all guidelines of the personnel policy and make more effort to ensure the payroll records are accurate.

We will be pleased to discuss any of these matters with you and, if desired, assist you in implementing any of these suggestions. This report is intended for the information of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

December 19, 2019