

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2009
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of the City's nonmajor governmental fund in the accompanying combined and individual fund financial statements as of and for the year ended June 30, 2009. These financial statements are the responsibility of the City's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the governmental activities, business-type activities, major funds, nonmajor governmental fund, and remaining fund information of the City of Hardinsburg, Kentucky as of June 30, 2009, and the changes in financial position (including cash flows, where applicable) of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated February 15, 2010 on our consideration of City of Hardinsburg's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 24 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information shown on pages 26 through 29 and the accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information on pages 26 through 28 and the accompanying Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

City of Hardinsburg has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended for the information of the city council, management, and federal awarding agencies and pass-through entities, 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

February 15, 2010

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash	\$ 599,371	\$ 2,134,891	\$ 2,734,262
Certificates of deposit	255,288	123,338	378,626
Receivables, net:			
Accounts - trade	-	247,632	247,632
Franchises	3,284	-	3,284
Miscellaneous	43,810	1,894	45,704
Taxes	64,569	-	64,569
Intergovernmental	43,026	58,346	101,372
Prepaid expenses	29,255	58,481	87,736
Total Current Assets	1,038,603	2,624,582	3,663,185
Noncurrent Assets			
Restricted cash	-	921,830	921,830
Investments	-	180,159	180,159
Net capital assets	1,704,249	27,230,693	28,934,942
Unamortized financing costs	-	90,914	90,914
Total Noncurrent Assets	1,704,249	28,423,596	30,127,845
Total Assets	2,742,852	31,048,178	33,791,030
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	8,803	35,427	44,230
Due on construction contracts	-	541,792	541,792
Accrued expenses	23,787	6,546	30,333
Interest payable	-	78,264	78,264
Accrued vacation	3,612	4,323	7,935
Deferred revenue	10,000	28,600	38,600
Bonds and loans payable	-	1,017,869	1,017,869
Total Current Liabilities	46,202	1,712,821	1,759,023
Noncurrent Liabilities			
Customer deposits payable	-	180,210	180,210
Due on water line construction	-	27,718	27,718
Loans payable	-	4,614,547	4,614,547
Revenue bonds payable	-	10,430,300	10,430,300
Deferred gain on refinancing	-	31,350	31,350
Unamortized bond premium	-	654	654
Total Noncurrent Liabilities	-	15,284,779	15,284,779
Total Liabilities	46,202	16,997,600	17,043,802
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,704,249	11,226,887	12,931,136
Restricted for capital and debt service	-	1,101,989	1,101,989
Unrestricted	992,401	1,721,702	2,714,103
Total Net Assets	\$ 2,696,650	\$ 14,050,578	\$ 16,747,228

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense)/Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$ 196,018	\$ -	\$ 7,523	\$ 827	\$ (187,668)	\$ -	\$ (187,668)
Streets and maintenance	118,948	-	-	41,245	(77,703)	-	(77,703)
Police department	273,871	3,476	31,253	-	(239,142)	-	(239,142)
Fire department	140,636	12,855	41,390	-	(86,391)	-	(86,391)
Interest on long-term debt	69	-	-	-	(69)	-	(69)
Total Governmental Activities	729,542	16,331	80,166	42,072	(590,973)	-	(590,973)
Business-Type Activities							
Water	2,363,602	2,249,388	-	906,776	-	792,562	792,562
Sewer	350,902	291,036	-	-	-	(59,866)	(59,866)
Sanitation	319,978	340,329	-	-	-	20,351	20,351
Total Business-Type Activities	3,034,482	2,880,753	-	906,776	-	753,047	753,047
Total	\$ 3,764,024	\$ 2,897,084	\$ 80,166	\$ 948,848	\$ (590,973)	\$ 753,047	\$ 162,074
General Revenues							
					\$ 664,489	\$ -	\$ 664,489
					9,281	41,820	51,101
					19,716	36,448	56,164
Special Items							
					30,720	9,603	40,323
					-	3,919	3,919
					38,500	21,000	59,500
Total					762,706	112,790	875,496
Changes in Net Assets					171,733	865,837	1,037,570
Net Assets - Beginning of Year					2,524,917	13,184,741	15,709,658
Net Assets - End of Year					\$ 2,696,650	\$ 14,050,578	\$ 16,747,228

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General Fund	Other Governmental Fund	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 589,057	\$ 10,314	\$ 599,371
Certificates of deposit	255,288	-	255,288
Receivables, net:			
Franchises	3,284	-	3,284
Miscellaneous	34,094	1,990	36,084
Taxes	64,569	-	64,569
Prepaid expenses	29,255	-	29,255
	\$ 975,547	\$ 12,304	\$ 987,851
<u>Liabilities</u>			
Accounts payable	\$ 8,803	\$ -	\$ 8,803
Accrued expenses	23,787	-	23,787
Deferred revenue	10,000	-	10,000
	42,590	-	42,590
<u>Fund Balances</u>			
Unreserved	932,957	12,304	945,261
	\$ 975,547	\$ 12,304	\$ 987,851

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

Total Governmental Fund Balances	\$ 945,261
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	1,704,249
A portion of the receivables is not available soon enough to pay for the current period's expenditures.	50,752
Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental funds.	(3,612)
Total Net Assets of Governmental Activities	\$ 2,696,650

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 349,987	\$ -	\$ 349,987
Insurance premium taxes	240,075	-	240,075
Occupational licenses	11,350	-	11,350
Auto licenses and stickers	24,963	-	24,963
Building permits	1,364	-	1,364
Interest income	9,070	211	9,281
Miscellaneous	23,192	-	23,192
Donations	2,448	-	2,448
Franchise fees	36,750	-	36,750
Subscription fees	12,855	-	12,855
Intergovernmental revenues:			
State highway grants	-	41,245	41,245
State police grants	14,430	-	14,430
Economic assistance grants	4,804	-	4,804
FEMA grant	3,641	-	3,641
HB413 revenue	12,644	-	12,644
Total Revenues	<u>747,573</u>	<u>41,456</u>	<u>789,029</u>
Expenditures			
Current:			
General government:			
Salaries and benefits	52,382	-	52,382
Administrative travel	1,927	-	1,927
Utilities	13,626	-	13,626
Insurance	5,308	-	5,308
Industrial development	2,500	-	2,500
Office expense	3,686	-	3,686
Advertising and printing	2,251	-	2,251
Professional fees	13,709	-	13,709
Repairs and maintenance	8,608	-	8,608
Supplies	4,520	-	4,520
Miscellaneous	3,014	-	3,014
Streets and maintenance	116,820	-	116,820
Police department	251,482	-	251,482
Fire department	60,933	-	60,933
Capital outlay	268,649	56,460	325,109
Debt service:			
Principal on long-term debt	6,769	-	6,769
Interest	69	-	69
Total Expenditures	<u>816,253</u>	<u>56,460</u>	<u>872,713</u>
Deficiency of Revenues Over Expenditures	<u>(68,680)</u>	<u>(15,004)</u>	<u>(83,684)</u>
Other Financing Sources			
Insurance recoveries	30,720	-	30,720
Net Changes in Fund Balances	<u>(37,960)</u>	<u>(15,004)</u>	<u>(52,964)</u>
Fund Balances - Beginning of Year	<u>970,917</u>	<u>27,308</u>	<u>998,225</u>
Fund Balances - End of Year	<u>\$ 932,957</u>	<u>\$ 12,304</u>	<u>\$ 945,261</u>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES**

Net Changes in Fund Balances - Governmental Funds \$ (52,964)

Amounts reported for governmental activities in the Statement of Activities are different

The governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 165,387

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 6,769

Some intergovernmental revenues are not currently available at year-end and are not reported as revenue in the governmental funds. 50,752

In the Statement of Activities, vacation leave is measured by the amount earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount actually paid. 1,789

Changes in Net Assets of Governmental Activities \$ 171,733

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2009

	Operations & Maintenance Fund	Waste Water Treatment Fund	Sanitation Fund	Totals
Assets				
Current Assets				
Cash	\$ 1,654,959	\$ 220,679	\$ 259,253	\$ 2,134,891
Certificates of deposit	123,338	-	-	123,338
Receivables, net:				
Accounts - trade	192,704	26,555	28,373	247,632
Miscellaneous	62	916	916	1,894
Intergovernmental	58,346	-	-	58,346
Prepaid expenses	39,377	12,843	6,261	58,481
Total Current Assets	2,068,786	260,993	294,803	2,624,582
Noncurrent Assets				
Restricted cash	827,422	94,408	-	921,830
Investments	154,283	25,876	-	180,159
Net capital assets	24,913,439	2,180,451	136,803	27,230,693
Unamortized financing costs	65,428	25,486	-	90,914
Total Noncurrent Assets	25,960,572	2,326,221	136,803	28,423,596
Total Assets	28,029,358	2,587,214	431,606	31,048,178
Liabilities				
Current Liabilities				
Accounts payable	24,980	3,186	7,261	35,427
Due on construction contracts	541,792	-	-	541,792
Accrued expenses	6,546	-	-	6,546
Interest payable	66,920	11,344	-	78,264
Accrued vacation	2,667	828	828	4,323
Deferred revenue	28,600	-	-	28,600
Bonds and loans payable	989,053	19,000	9,816	1,017,869
Total Current Liabilities	1,660,558	34,358	17,905	1,712,821
Noncurrent Liabilities				
Customer deposits payable	180,210	-	-	180,210
Due on water line construction	27,718	-	-	27,718
Loans payable	4,543,903	-	70,644	4,614,547
Revenue bonds payable	9,760,300	670,000	-	10,430,300
Deferred gain on refinancing	31,350	-	-	31,350
Unamortized bond premium	654	-	-	654
Total Noncurrent Liabilities	14,544,135	670,000	70,644	15,284,779
Total Liabilities	16,204,693	704,358	88,549	16,997,600
Net Assets				
Invested in capital assets, net of related debt	9,653,607	1,516,937	56,343	11,226,887
Restricted for capital and debt service	981,705	120,284	-	1,101,989
Unrestricted	1,189,353	245,635	286,714	1,721,702
Total Net Assets	\$ 11,824,665	\$ 1,882,856	\$ 343,057	\$ 14,050,578

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Operations & Maintenance Fund	Waste Water Treatment Fund	Sanitation Fund	Totals
Operating Revenues				
Charges for services	\$ 2,044,058	\$ 286,029	\$ 336,747	\$ 2,666,834
Penalty charges	24,652	3,607	3,582	31,841
Connection fees	180,678	1,400	-	182,078
Total Operating Revenues	2,249,388	291,036	340,329	2,880,753
Operating Expenses				
Salaries and benefits	132,927	38,066	38,065	209,058
Maintenance and supplies	77,467	6,980	3,744	88,191
Chemicals	49,127	-	-	49,127
Contract operations	935,191	147,969	174,120	1,257,280
Professional fees	5,805	1,070	923	7,798
Office and advertising	22,785	6,942	6,706	36,433
Landfill fees	-	-	75,340	75,340
Amortization	4,118	1,416	-	5,534
Depreciation	605,433	107,303	10,066	722,802
Rental expense	3,480	2,400	3,600	9,480
Insurance	34,793	11,281	4,788	50,862
Miscellaneous	234	-	84	318
Total Operating Expenses	1,871,360	323,427	317,436	2,512,223
Operating Income (Loss)	378,028	(32,391)	22,893	368,530
Non-Operating Revenues (Expenses)				
Interest income	36,435	3,247	2,138	41,820
Rental income	31,200	-	-	31,200
Other income	3,243	428	1,577	5,248
Intergovernmental grants	897,203	-	-	897,203
Breckinridge County debt payment	9,573	-	-	9,573
Insurance recoveries	9,603	-	-	9,603
Gain on refinancing	3,919	-	-	3,919
Interest expense	(492,242)	(27,475)	(2,542)	(522,259)
Total Non-Operating Revenues (Expenses)	498,934	(23,800)	1,173	476,307
Income (Loss) Before Contributions	876,962	(56,191)	24,066	844,837
Capital Contributions	21,000	-	-	21,000
Changes in Net Assets	897,962	(56,191)	24,066	865,837
Total Net Assets - Beginning of Year	10,926,703	1,939,047	318,991	13,184,741
Total Net Assets - End of Year	\$ 11,824,665	\$ 1,882,856	\$ 343,057	\$ 14,050,578

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Operations & Maintenance Fund	Waste Water Treatment Fund	Sanitation Fund	Totals
Cash Flows from Operating Activities:				
Cash received from customers	\$ 2,284,344	\$ 291,550	\$ 341,151	\$ 2,917,045
Other receipts	16,000	-	-	16,000
Cash payments to suppliers for goods and services	(1,142,966)	(178,199)	(270,770)	(1,591,935)
Cash payments to employees for services	(133,264)	(38,170)	(38,169)	(209,603)
Net Cash Provided by Operating Activities	1,024,114	75,181	32,212	1,131,507
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(1,852,228)	(59,263)	(4,001)	(1,915,492)
Intergovernmental grants	955,751	-	-	955,751
Payment on water line construction	(470)	-	-	(470)
Proceeds from short-term debt	541,058	-	-	541,058
Principal paid on debt	(436,985)	(19,000)	(9,557)	(465,542)
Interest paid on debt	(487,371)	(27,653)	(2,542)	(517,566)
Net Cash Used by Capital and Related Financing Activities	(1,280,245)	(105,916)	(16,100)	(1,402,261)
Cash Flows from Investing Activities:				
Interest income	36,542	3,242	2,134	41,918
Other non-operating income and expenses	53,619	428	1,577	55,624
Net Cash Provided by Investing Activities	90,161	3,670	3,711	97,542
Net Increase (Decrease) in Cash and Cash Equivalents	(165,970)	(27,065)	19,823	(173,212)
Cash and Cash Equivalents - Beginning of Year	2,925,972	368,028	239,430	3,533,430
Cash and Cash Equivalents - End of Year	\$ 2,760,002	\$ 340,963	\$ 259,253	\$ 3,360,218
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 378,028	\$ (32,391)	\$ 22,893	\$ 368,530
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	605,433	107,303	10,066	722,802
Amortization	4,118	1,416	-	5,534
Change in assets and liabilities:				
Receivables, net	32,456	514	822	33,792
Prepaid expenses	1,892	334	25	2,251
Accounts payable	(15,944)	(1,891)	(1,490)	(19,325)
Accrued expenses	(32)	-	-	(32)
Other liabilities	18,163	(104)	(104)	17,955
Total Adjustments	646,086	107,572	9,319	762,977
Net Cash Provided by Operating Activities	\$ 1,024,114	\$ 75,181	\$ 32,212	\$ 1,131,507
Schedule of Non-Cash Transactions				
Donated capital assets	\$ 21,000	\$ -	\$ -	\$ 21,000

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets 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 each function of the City's governmental activities. Direct expenses are those that are specifically associated with a department or function and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 funds rather than fund types. Nonmajor funds are aggregated and presented in a single column.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Concluded)

The City reports the following major governmental funds:

- 1) General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- 2) Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to specified purposes.

The City reports the following major proprietary fund:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate.

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.

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. 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.

Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements.

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, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Concluded)

For the government-wide financial statements, all capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. 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. General infrastructure assets acquired prior to July 1, 2003 are not reported.

Depreciation is provided in the government-wide 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 asset in the proprietary fund. The service lives by type of asset are as follows:

Vehicles and equipment	5 - 20 years
Improvements	10 - 40 years
Infrastructure	10 - 25 years
Buildings	10 - 40 years
Plant	10 - 40 years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their 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 assets are those assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible trade receivables was \$17,768 at June 30, 2009. See Note C for the allowance for estimated uncollectible property taxes.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Investments

Investments consist of certificates of deposit plus accrued interest and state and local government securities.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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.

Deferred Revenue

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

NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Normally, prior to June 30, the Mayor submits to the City Council a proposed operating budget for the general fund 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.

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 - PROPERTY TAXES

The City's property taxes are levied before the first day of November on the assessed values as of January 1 for all real and personal property located in the city including vehicles. Property taxes are due December 31 and become delinquent January 1 of the following year. The City's real and personal property tax rate is \$.274 per \$100 valuation, of which \$.243 is for general fund purposes and \$.031 is for fire department purposes. The City's vehicle tax rate is \$.28 per \$100 of assessed value. The City is permitted by the Kentucky Constitution to levy taxes up to \$.75 per \$100 of assessed value, as its population is less than 10,000. The City is well within the maximum tax rate it is allowed to levy.

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. At June 30, 2009, the gross amount of delinquent taxes due was \$16,813, and the allowance for uncollectible taxes was \$15,552.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE D - CASH AND INVESTMENTS

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2009, the reported amount of the City's cash and cash equivalents was \$4,034,718 and the bank balance was \$4,047,858.

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, deposits of the City were either insured or collateralized with securities held by the pledging financial institution in the City's name.

Investments

The City transfers monthly amounts for bond principal and interest payments into a common trust fund, which consists entirely of federated treasury obligations. The City does not have an investment policy for credit risk. Regarding credit risk, these funds are 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; therefore, they are subject to investment risks, including possible loss of principal. Both the carrying amount and market value of the investments were \$180,159 at year-end.

Restricted Cash

As discussed in notes F and G, 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 the federated treasury obligations are restricted for bond principal and interest payments.

NOTE E - RECONCILIATION OF CASH

For purposes of the Statement of Cash Flows, cash and cash equivalents consisted of the following:

	<u>June 30, 2009</u>
Cash	\$2,134,891
Certificates of deposit	123,338
Restricted cash	921,830
Investments	<u>180,159</u>
Total	<u><u>\$3,360,218</u></u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE F - BONDS PAYABLE

The construction costs of the City's water and sewer facilities have been financed by the issuance of revenue bonds. A summary of the bonds outstanding follows.

In January 1993, the City of Hardinsburg issued \$1,000,000 in revenue bonds at an interest rate of 5%.

On October 1, 2003, the City issued \$654,400 in refunding revenue bonds with interest rates ranging from 2.06% to 4.435% to refund \$656,000 of outstanding Series 1979 bonds with an interest rate of 5%.

On February 1, 2004, the City issued \$773,000 and \$1,702,000 in refunding revenue bonds with interest rates ranging from 2.0% to 4.375% to refund \$738,000 and \$1,634,000 of outstanding Series 1988 and 1990 bonds, respectively, with interest rates of 5%.

In January 2006, the City issued a bond ordinance authorizing and providing for the issuance and sale of \$7,463,000 of water and sewer revenue bonds, for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing water and sewer system. The thirty-eight year bonds have a 4.125% interest rate.

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund - All receipts for services are deposited into this fund and disbursed as follows.

Sinking Fund - Revenues shall first be used to pay in monthly installments into the Sinking Fund amounts equal to one-sixth of the next succeeding six-month interest payment to become due and one-twelfth of the principal maturing on the next succeeding principal payment date.

Reserve Fund - Revenues shall next be used each month to pay into the Reserve Fund the amounts required by bond ordinance until the required sum is accumulated.

Operation and Maintenance Fund - Revenues shall next be used each month to pay into the Operation and Maintenance (O&M) Fund such amounts as are necessary for maintenance and operation of the system.

During the fiscal year ended June 30, 2009, the required deposits were made to the various funds as outlined above.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE G - LOANS PAYABLE

In accordance with an agreement dated April 1, 1989 by the Kentucky Infrastructure Authority (KIA) and the City of Hardinsburg, \$449,000 of debt payable to Rural Development (RD) relating to the Garfield/Irvington water line extension was paid under the RD Loan Acquisition Program. On July 29, 2004, the remaining balance of \$358,742 was refinanced using \$57,799 in a reserve account supplemented with a deferred gain from other pooled reserves of \$50,943 to reduce the new liability to \$250,000. The City makes monthly payments to a Sinking Fund, which will accumulate until sufficient to retire the remaining principal of the debt at that time. At June 30, 2009, the balance in the Sinking Fund was \$50,642 and the loan balance payable to KIA was \$250,000.

During the year ended June 30, 1999, the City of Hardinsburg entered into a loan agreement with KIA. Proceeds of this loan were used to provide utility services to a new detention center. The original amount of the loan was \$131,231 with an interest rate of 1.2%. Payments of \$3,700, which include principal and interest, are required each June 1 and December 1 through the fiscal year 2019. As outlined in the terms of the agreement, the City has met the required balance of \$6,562 in the replacement and maintenance reserve account.

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

During the year ended June 30, 2003, the City finalized the \$500,000 KIA loan used to help fund the Highway 86 Water Project. The financing arrangement calls for forty semi-annual payments of \$14,940, which include interest at 1.8%, and ten annual transfers of \$16,130 to the replacement and maintenance reserve account.

In 2008, the City finalized a funding agreement with KIA in the amount of \$4.4 million to aid in financing the cost of the new water plant. The capitalization grant for Drinking Water State Revolving Funds (DWSRF) was awarded by the Environmental Protection Agency, and KIA matched approximately 20%. 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.

NOTE H - CAPITAL LEASE OBLIGATIONS

In September 2001, the City signed a lease agreement with Public-Finance.com, Inc. for the purchase of a new fire truck. The original amount of \$121,000 was due in 84 monthly installments of \$1,710, with interest at 4.99%. The lease was paid in full at year-end.

**CITY OF HARDINBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE I - DEBT MATURITIES

Fiscal Year Ending June 30,	Business-Type Activities			
	<u>Bonds Payable</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 234,000	\$ 437,231	\$ 242,811	\$ 62,862
2011	241,500	429,083	245,617	60,056
2012	252,000	420,464	248,458	57,214
2013	262,600	411,148	251,337	54,336
2014	273,200	401,269	254,254	51,419
2015 - 2019	1,436,000	1,836,646	1,535,739	186,569
2020 - 2024	1,604,000	1,536,904	1,244,217	77,088
2025 - 2029	1,605,000	1,171,984	834,925	16,782
2030 - 2034	1,328,000	873,480	-	-
2035 - 2039	1,370,000	598,537	-	-
2040 - 2044	1,680,000	291,555	-	-
2045	378,000	15,592	-	-
Totals	<u>\$10,664,300</u>	<u>\$8,423,893</u>	<u>\$4,857,358</u>	<u>\$566,326</u>

NOTE J - CHANGES IN GENERAL LONG-TERM DEBT

Changes in long-term liability obligations, including current portions, for the year ended June 30, 2009 were as follows:

	<u>Payable at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>
<u>Governmental Activities</u>				
Capital lease obligations	\$ 6,769	\$ -	\$ 6,769	\$ -
<u>Business-Type Activities</u>				
Customer deposits payable	\$ 161,710	\$ 80,659	\$ 62,159	\$ 180,210
Due on water line construction	28,188	-	470	27,718
Loans payable	5,097,400	-	240,042	4,857,358
Revenue bonds payable	10,889,800	-	225,500	10,664,300
Deferred gain on refinancing	35,268	-	3,918	31,350
Unamortized bond premium	727	-	73	654
	<u>\$16,213,093</u>	<u>\$ 80,659</u>	<u>\$ 532,162</u>	<u>\$15,761,590</u>

Long-term liabilities other than long-term debt have been liquidated in the Proprietary Funds.

NOTE K - PENSION PLANS

County Employees Retirement System

Plan Description - The City staff participates in the County Employees Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing multiple-employer public employee retirement system that covers substantially all regular full-time employees of each county, non-certified school board employees, and any additional eligible local agencies electing to participate in the System. At June 30, 2008, there were 1,468 local governments participating in CERS, which provides for retirement, disability, and death benefits.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE K - PENSION PLANS (CONCLUDED)

The Kentucky Retirement System (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.

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2009, non-hazardous and hazardous plan participating employees who began participating with KRS prior to September 1, 2008 contributed 5% and 8%, respectively, of creditable compensation to CERS. Non-hazardous and hazardous employees who began participating with KRS on or after September 1, 2008 contributed 6% and 9%, respectively, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. For the year ended June 30, 2009, participating employers contributed 13.5% and 29.5% of members' compensation for non-hazardous and hazardous gross pay, respectively. The City's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2009	\$278,945	\$17,978	\$58,649	\$76,627
2008	\$286,540	\$18,288	\$69,706	\$87,994
2007	\$277,835	\$17,663	\$55,526	\$73,189

Benefits under the plan will vary based on final compensation, years of service, and other factors as fully described in the plan documents. Retired employees covered under the plan receive some health care benefits depending on their length of service and date of employment. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

The City also participates in the Kentucky Public Employees 401(k) Deferred Compensation (Plan II). Participation in the plan is voluntary and contributions are withheld from participating employees' wages. Employee contributions were \$4,700 for the fiscal year. No contributions were made by the City.

NOTE L - CONTRACT OPERATIONS

The City and Professional Services Group, Inc. (PSG) entered into an agreement to employ the services of PSG through June 30, 2009 for the management of the water plant, water distribution system, wastewater plant, wastewater collection system, street network, and garbage collection service for an annual fee of \$1,324,195. Billings by PSG were in accordance with rates established by the contract.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE M - DEFERRED REVENUE

In April 2008, the City entered into a lease agreement with Bluegrass Cellular whereby the City agreed to lease two towers for five years. The annual sum of \$31,200 was made in advance for the term June 2009 to May 2010. Accordingly, \$28,600 is reported as deferred revenue on the Statement of Net Assets.

The City also received a \$10,000 donation to be used towards playground equipment for a new city park. As the City is still in the planning stages for the park, \$10,000 is reported as deferred revenue in the general fund.

NOTE N - LEASED EQUIPMENT

The gross amount of assets purchased under capital leases and the accumulated amortization for each class are as follows:

	Cost	Accumulated Amortization
Buildings and improvements	\$ 12,016	\$ 12,016
Equipment and vehicles	\$349,955	\$318,662

This information was available only for assets acquired since November 1994. Any assets acquired by lease prior to that time have not been segregated from assets acquired by other means. Depreciation expense includes \$13,908 in amortization expense for assets purchased under capital leases.

NOTE O - COMMITMENTS AND CONTINGENCIES

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

As referenced in Note K, the City's employees are enrolled in the County Employees Retirement System (CERS). At June 30, 2008, CERS had an unfunded pension and insurance liability of \$3.57 billion. The Kentucky General Assembly made significant changes to CERS on June 27, 2008 to benefits and funding; nevertheless, future contributions by employers may be dramatically higher. The employer contribution rate for 2009-2010 is 16.16% non-hazardous and 32.97% hazardous.

Prior to year-end, the City and PSG entered into an agreement to employ the services of PSG through June 30, 2010 for the management of the water plant, water distribution system, wastewater plant, wastewater collection system, street network, and garbage collection service for an annual fee of \$1,350,679. Subsequent to year-end, the agreement, which will be subject to annual increases, was extended through June 30, 2020.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE O - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

The Breckinridge County Fiscal Court received several Infrastructure for Economic Development Fund grants on behalf of the City. The \$75,000 grant was used for a Water Master Plan, which shows areas of the county currently without water service, potential funding sources, and how water can be provided to these areas. The City received the remaining \$7,125 from the grant during the current year.

In the 2006-2007 fiscal year, the City was awarded HB380 Grants for water line extensions. \$85,000 was awarded for Tules Creek Road, and \$100,000 was awarded for Ephesus Church Road. During this fiscal year, the City received all proceeds from both grants.

The City received the \$572,530 balance of the \$1 million HB380 Grant that was awarded for further water line extensions in the McQuady area (Phase II). The \$1.383 million project, which also covered the \$242,000 Axtel Tank rehabilitation and \$185,000 for Tules Creek and Ephesus Church Roads, was also funded by tap fees, O&M funds, and other state grants. This project was completed prior to year-end.

Of the \$1.425 million RD grant awarded for the construction of the new water treatment plant, the City received the remaining \$169,323 for use on various projects.

Prior to year-end, the City awarded the bid for a water line expansion in the Stephensport area at a cost of \$2,234,592. Funding for the project includes an RD grant of \$650,000 and a forty-year 3.375% loan of \$1,350,000; a 1% twenty-year KIA/DWSRF loan of \$1,999,250; and \$59,950 in water connection fees. Construction in process on the Schedule of Capital Assets includes \$1,069,240 in costs incurred to date on this project, which includes \$5,217 of capitalized interest. After change orders and other project expenses, the City expects to have \$600,000 of unspent funds once the project is complete. The City anticipates spending \$150,000 of the excess funds on a new backhoe, dump truck, and trailer and \$450,000 on additional water line extensions.

The City was awarded a state grant of \$100,000 for sewer repairs. The City also committed \$50,000 of local funds to the project. No grant proceeds had been received at year-end, as the project was still in the planning stages.

The City was also awarded \$1.15 million for water line extensions along US 60 and Webb Road. Construction in process on the Schedule of Capital Assets includes \$1,496 in costs incurred to date on this project. Contracts for this project were awarded subsequent to year-end (see Note S).

Prior to year-end, the City awarded the bid for a \$65,650 generator, which was funded by unspent money from the RD grant for the new water treatment plant.

The City is currently seeking funding for water line extensions to McQuady, known as the McQuady 3/Area 259 project.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE P - ACCRUED EXPENSES

Accrued expenses on the Statement of Net Assets include \$23,787 due for insurance premium tax refunds. An insurance company erroneously remitted the amount to the City and subsequently requested a refund. Presently the company is using the overpayment as a credit to apply toward its quarterly insurance premium tax remittances. If the company decides to request reimbursement for the overpayment, the City would be obligated to make payment in full.

NOTE Q - WATER CONTRACTS

The City has contracts with the City of Irvington, Kentucky (Irvington) and the Breckinridge County Fiscal Court (County). Irvington pays Hardinsburg for water usage at a rate that is adjustable annually based on costs of operating the water plant. Irvington currently pays \$2.50 per thousand gallons of consumption and approximately \$970 and \$1,417 per month to fund its portion of the water plant debt service and the construction debt service, respectively. For the year ended June 30, 2009, the City collected \$117,533 in water revenue, \$11,643 for the water plant debt service, and \$17,004 for the construction debt service from Irvington. The County reimburses the City \$798 each month to service the debt on a water line extension to the Breckinridge County Detention Center.

In August 2002, the City entered into an agreement with Hardin County Water District (HCWD) whereby they would provide water to the City at the rate of \$1.92 per thousand gallons of water used and a fee each time a connection is made. The City paid for the meter vault and tie-in to HCWD's system, but HCWD will maintain the connection and meter. The City resorts to this backup system in the event its own water plant is pumped to capacity. For the year ended June 30, 2009, the City spent \$145 on water purchased from HCWD.

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 is \$2.14 per thousand gallons of consumption, subject to a minimum of 3,600,000 gallons per month or \$7,704. The wholesale rate is subject to increase twenty-four months after the execution date of the agreement. At year-end, the City was still in the planning stages of the project. The contract will commence from the date of initial delivery of water.

NOTE R - REDUCTIONS IN FUND EQUITY

No funds of the City ended the year with a deficit balance. However, the waste water treatment fund, the general fund, and the road fund experienced a current year deficit of revenues over expenses/expenditures resulting in a corresponding reduction of net assets/fund balance.

NOTE S - SUBSEQUENT EVENTS

In August 2009, the City awarded the bid for the US60/Webb Road water line expansion. The original contract of \$1,405,225 and \$33,290 in change orders brought the total to \$1,438,515. Funding for the project includes \$1.15 million in state grants (see Note O) and \$640,509 of RD contingency funds from the Stephensport project.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE S - SUBSEQUENT EVENTS (CONCLUDED)

In October 2009, the City was awarded an additional \$550,000 by the Clean Water State Revolving Fund for sewer repairs.

Subsequent to year-end, the City issued \$1,350,000 in water and sewer revenue bonds to obtain permanent financing for the Stephensport water line expansion. The forty-year Series 2009 bonds were issued by RD at an interest rate of 3.375%. A portion of the proceeds from the bond issue was used to pay off \$633,805 of interim financing (see Note W). The City also began making draws on the 1% twenty-year KIA/DWSRF loan of \$1,999,250 (see Note O).

NOTE T - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 can be found on page 28 in the Schedule of Capital Assets. Depreciation expense was charged to functions in the Statement of Activities as follows:

General government	\$ 84,234
Streets and maintenance	2,128
Police department	24,431
Fire department	<u>79,703</u>
	<u>\$190,496</u>

Idle Assets - Due to the construction of the new water plant and the closure of the old water plant, the City had idle assets with a book value of \$1,894,279 at year-end.

NOTE U - CONTRIBUTED CAPITAL

The City accepted one water line valued at \$21,000 into its system.

NOTE V - INTERGOVERNMENTAL RECEIVABLE

The City experienced increased expenditures as a result of a January 2009 ice storm. Of the \$118,315 submitted to FEMA for reimbursement, the City anticipates receiving \$88,736 federal and \$12,636 state funds. Accordingly, \$101,372 has been recorded as an intergovernmental receivable in the Statement of Net Assets. The City met its matching requirement of \$16,943.

NOTE W - SHORT-TERM DEBT

The City obtained interim financing from the Kentucky Rural Water Finance Corporation to provide construction funding for the Stephensport water line expansion. At year-end, the City had received loan proceeds of \$541,058. The 3.7% loan was paid out in October 2009 after permanent financing was provided by the RD bond issue (see Note S).

	Payable at July 1, 2008	Additions	Reductions	Balance June 30, 2009
<u>Business-Type Activities</u>				
Interim financing	\$ -	\$541,058	\$ -	<u>\$541,058</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 342,440	\$ 355,982	\$ 349,987	\$ (5,995)
Insurance premium taxes	254,000	236,500	233,803	(2,697)
Occupational licenses	12,600	12,000	11,350	(650)
Auto licenses and stickers	28,570	26,000	24,963	(1,037)
Building permits	1,000	1,275	1,364	89
Intergovernmental revenues:				
HB413 revenue	10,500	12,748	12,644	(104)
Economic assistance grants	3,200	4,700	4,804	104
FEMA grants	-	3,640	3,641	1
State police grants	16,600	15,000	14,430	(570)
Division of forestry grants	7,750	7,750	-	(7,750)
Franchise fees	36,153	37,503	36,750	(753)
Subscription fees	11,500	12,825	12,855	30
Rental income	10,560	11,060	11,060	-
Interest income	12,000	12,000	9,070	(2,930)
Miscellaneous	8,545	12,494	12,131	(363)
Donations	1,210	2,171	2,448	277
Total Revenues	756,628	763,648	741,300	(22,348)
Expenditures				
Current:				
General government	161,922	127,658	111,531	16,127
Police department	265,905	269,760	251,482	18,278
Fire department	53,960	61,950	60,933	1,017
Streets and maintenance	120,952	118,652	116,820	1,832
Capital outlay	173,410	316,576	268,649	47,927
Debt service:				
Principal on long-term debt	6,770	6,770	6,769	1
Interest	71	71	69	2
Total Expenditures	782,990	901,437	816,253	85,184
Deficiency of Revenues Over Expenditures	(26,362)	(137,789)	(74,953)	62,836
Other Financing Sources (Uses)				
Transfers out	(13,000)	-	-	-
Insurance recoveries	-	1,150	7,583	6,433
Total Other Financing Sources (Uses)	(13,000)	1,150	7,583	6,433
Net Changes in Fund Balance	(39,362)	(136,639)	(67,370)	69,269
Fund Balance - Beginning of Year	448,000	575,713	993,555	417,842
Fund Balance - End of Year	\$ 408,638	\$ 439,074	\$ 926,185	\$ 487,111

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A - BUDGET

The City prepares its financial statements using accounting principles generally accepted in the United States of America (GAAP), but the budget is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

The actual results of operations are presented in accordance with GAAP. All governmental fund budgets are maintained on the cash basis (budgetary basis) of accounting, which is a comprehensive basis of accounting other than GAAP. The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. A reconciliation of the different bases of revenue and expenditure recognition for the year ended June 30, 2009, is as follows:

Revenues, GAAP Basis	\$747,573
<i>Deduct:</i> Revenue not recognized in current year budget	6,273
Revenues, Budgetary Basis	\$741,300
Other Financing Source, GAAP Basis	\$ 30,720
<i>Deduct:</i> Revenue not recognized in current year budget	23,137
Other Financing Sources, Budgetary Basis	\$ 7,583

SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2009**

	<u>Special Revenue</u>	
	<u>Road Fund</u>	
<u>Assets</u>		
Cash	\$	10,314
Receivables:		
Miscellaneous		1,990
Total Assets	\$	12,304
<u>Fund Balance</u>		
Unreserved:		
Designated for street repair	\$	12,304
Total Fund Balance	\$	12,304

**CITY OF HARDINSBURG, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE -
 NONMAJOR GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2009**

	Special Revenue
	Road Fund
Revenues	
Interest income	\$ 211
Intergovernmental revenues:	
State highway grants	41,245
Total Revenues	41,456
 Expenditures	
Capital outlay	56,460
 Deficiency of Revenues Over Expenditures	 (15,004)
 Net Changes in Fund Balance	 (15,004)
 Fund Balance - Beginning of Year	 27,308
 Fund Balance - End of Year	 \$ 12,304

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Basis			Balance June 30, 2009	Depreciation			Balance June 30, 2009	Net Capital Assets June 30, 2009
	Balance July 1, 2008	Additions	Deletions		Balance July 1, 2008	Additions	Deletions		
Governmental Activities:									
Not Depreciated:									
Land	\$ 241,645	\$ -	\$ -	\$ 241,645	\$ -	\$ -	\$ -	\$ -	\$ 241,645
Depreciated:									
Buildings and improvements	630,739	10,875	-	641,614	190,516	21,928	-	212,444	429,170
Furniture and fixtures	54,151	7,215	-	61,366	28,947	6,998	-	35,945	25,421
Equipment	282,623	17,019	-	299,642	172,715	34,362	-	207,077	92,565
Vehicles	605,031	136,383	-	741,414	206,442	71,646	-	278,088	463,326
Parks	79,496	-	-	79,496	43,637	1,521	-	45,158	34,338
Infrastructure	454,580	184,391	-	638,971	167,146	54,041	-	221,187	417,784
	<u>2,106,620</u>	<u>355,883</u>	<u>-</u>	<u>2,462,503</u>	<u>809,403</u>	<u>190,496</u>	<u>-</u>	<u>999,899</u>	<u>1,462,604</u>
	<u>\$ 2,348,265</u>	<u>\$ 355,883</u>	<u>\$ -</u>	<u>\$ 2,704,148</u>	<u>\$ 809,403</u>	<u>\$ 190,496</u>	<u>\$ -</u>	<u>\$ 999,899</u>	<u>\$ 1,704,249</u>
Business-Type Activities:									
Not Depreciated:									
Land	\$ 257,161	\$ 1,500	\$ -	\$ 258,661	\$ -	\$ -	\$ -	\$ -	\$ 258,661
Construction in process	475,806	1,977,509	1,382,579	1,070,736	-	-	-	-	1,070,736
	<u>732,967</u>	<u>1,979,009</u>	<u>1,382,579</u>	<u>1,329,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,329,397</u>
Depreciated:									
Buildings and improvements	309,083	-	-	309,083	79,262	10,229	-	89,491	219,592
Equipment	463,070	10,021	-	473,091	424,874	16,645	-	441,519	31,572
Vehicles	137,159	-	-	137,159	115,577	4,796	-	120,373	16,786
Treatment plants	18,992,604	127,924	-	19,120,528	2,598,836	376,563	-	2,975,399	16,145,129
Distribution system	8,437,015	1,567,621	-	10,004,636	2,319,058	211,135	-	2,530,193	7,474,443
Waste water plant	3,722,646	59,021	-	3,781,667	1,664,460	103,433	-	1,767,893	2,013,774
	<u>32,061,577</u>	<u>1,764,587</u>	<u>-</u>	<u>33,826,164</u>	<u>7,202,067</u>	<u>722,801</u>	<u>-</u>	<u>7,924,868</u>	<u>25,901,296</u>
	<u>\$ 32,794,544</u>	<u>\$ 3,743,596</u>	<u>\$ 1,382,579</u>	<u>\$ 35,155,561</u>	<u>\$ 7,202,067</u>	<u>\$ 722,801</u>	<u>\$ -</u>	<u>\$ 7,924,868</u>	<u>\$ 27,230,693</u>

**CITY OF HARDINSBURG, KENTUCKY
LIST OF COUNCIL MEMBERS
JUNE 30, 2009**

Water System City of Hardinsburg, Kentucky

Telephone Number (270) 756-2213

<u>Position</u>	<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Mayor	Wayne Macy	Hardinsburg, Kentucky	12-31-10
Council Member	Darla Wethington	Hardinsburg, Kentucky	12-31-10
Council Member	Wilma Thomas	Hardinsburg, Kentucky	12-31-10
Council Member	Ruth Ann Skillman	Hardinsburg, Kentucky	12-31-10
Council Member	Nettie Parker	Hardinsburg, Kentucky	12-31-10
Council Member	Jim Miller	Hardinsburg, Kentucky	12-31-10
Council Member	Ints Kampars	Hardinsburg, Kentucky	12-31-10
City Clerk	Shirley Bland ¹	Hardinsburg, Kentucky	N/A
City Treasurer ²	Mary Jo Hess	Hardinsburg, Kentucky	N/A

¹ Succeeded by Mary Jo Hess as City Clerk/Treasurer

² Positions of City Clerk and City Treasurer were combined

INDEPENDENT AUDITORS' REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



DRANE & COMPANY, PLLC

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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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, major fund, and remaining fund information of the City of Hardinsburg (City), as of and for the year ended June 30, 2009, and have issued our report thereon dated February 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in items 09-1 and 09-2 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 09-1 and 09-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 15, 2010.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the city council, regulatory agencies, federal awarding agencies, and pass-through entities 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

February 15, 2010

INDEPENDENT AUDITORS' REPORT AND SCHEDULES
REQUIRED BY OMB CIRCULAR A-133



DRANE & COMPANY, PLLC

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Hardinsburg, Kentucky (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the city council, regulatory agencies, federal awarding agencies, and pass-through entities 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

February 15, 2010

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Agency/Program Title	Federal CFDA Number	Federal Expenditures
<u>Environmental Protection Agency</u>		
Passed through State of Kentucky:		
Congressionally Mandated Projects	66.202	\$ 67,662
Capitalization Grants for Drinking Water State Revolving Funds *	66.468	369,278
Capitalization Grants for Drinking Water State Revolving Funds (Loan) *	66.468	<u>3,449,109</u>
Total Environmental Protection Agency		<u><u>3,886,049</u></u>
<u>U.S. Department of Agriculture</u>		
Water and Waste Disposal Systems for Rural Communities *	10.760	603,851
Water and Waste Disposal Systems for Rural Communities (Loan) *	10.760	4,749,000
Water and Waste Disposal Systems for Rural Communities (Loan) *	10.760	2,631,000
Water and Waste Disposal Systems for Rural Communities (Loan) *	10.760	<u>836,000</u>
Total U.S. Department of Agriculture		<u><u>8,819,851</u></u>
<u>Department of Homeland Security</u>		
Passed through State of Kentucky:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>91,875</u>
Total Department of Homeland Security		<u><u>91,875</u></u>
Total		<u><u>\$ 12,797,775</u></u>

* Denotes major program

Notes to Schedule:

1. This schedule is prepared on the accrual basis of accounting.
2. The City did not have any noncash awards during the fiscal year.
3. Amounts indicated as loans are outstanding loan balances with continuing compliance requirements.

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- | | | |
|---|---|--|
| Any material weakness(es) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
| Any significant deficiencies identified not considered to be material weaknesses? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Any noncompliance material to financial statements noted? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |

Federal Awards

Internal control over major programs:

- | | | |
|---|------------------------------|--|
| Any material weakness(es) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Any significant deficiencies identified not considered to be material weaknesses? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |

Type of auditors' report issued on compliance for major programs: Unqualified

- | | | |
|--|------------------------------|--|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
•Water and Waste Disposal Systems for Rural Communities	10.760
•Capitalization Grants for Drinking Water State Revolving Funds	66.468

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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

Section II: Financial Statement Findings

Findings 09-1 and 09-2.

Section III: Federal Awards Findings

None.

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding: 09-1 (Repeat)

<i>Criteria:</i>	Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Condition:</i>	Certain material adjustments were required as part of the audit process.
<i>Cause:</i>	Traditionally, small governments have expected such adjustments to be part of the audit process. However, recent pronouncements have placed a greater expectation on the government to make all material adjustments itself with little opportunity to develop the necessary expertise.
<i>Effect:</i>	Assets, liabilities, revenues, and expenditures were overstated or understated.
<i>Recommendation:</i>	Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all known adjustments have been made.
<i>Management Response:</i>	<i>The City staff will receive the necessary training through classes available through Kentucky League of Cities, Lincoln Trail Development District, and clerk training, in addition to a City accountant. The City will also consider keeping an accountant on retainer to review the adjustments prior to the audit and possibly have them review the budget on a quarterly basis.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding: 09-2 (Repeat)

<i>Criteria:</i>	Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of its assets, liabilities, and fund balance and its statement of revenues, expenditures, and changes in fund balance, including the notes to financial statements, in conformity with accounting principles generally accepted in the United States of America.
<i>Condition:</i>	As part of the audit, management requested us to prepare a draft of the City's financial statements, including the related notes to financial statements. Management accepts responsibility for the financial statements; however, management does not have the ability to evaluate the completeness of financial statements and related disclosures.
<i>Cause:</i>	During our audit, we noted that the City has a lack of sufficient personnel with skills, training, and familiarity with certain complex technical accounting pronouncements that have or may affect the City's financial statements and disclosures. The existence of material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations.
<i>Effect:</i>	The absence of the ability to perform this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.
<i>Recommendation:</i>	Management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions. To provide oversight of the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.
<i>Management Response:</i>	<i>The City will consider hiring an accountant for a limited time to assist and train the City Clerk/[Treasurer] in the development of internal controls and procedures in maintaining and monitoring the budget process in order to prevent the aforementioned deficiencies from reoccurring.</i>

**CITY OF HARDINSBURG, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 07-1

Status: This was partially corrected this fiscal year. We will complete the planned action during the next fiscal year.

Finding 08-1

Status: There was no activity for this federal program during the current fiscal year.

MANAGEMENT LETTER



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MANAGEMENT LETTER

Honorable Mayor and Council Members
City of Hardinsburg
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, 2009, 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 February 15, 2010, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated February 15, 2010, on the basic financial statements of the City of Hardinsburg.

PRIOR YEAR

Much improvement was noted in the use of receiving reports; however, some disbursements were made with no evidence of the goods or services having been received. We continue to recommend that a signed receiving report or packing slip accompany invoices for payment (unless payment is for utilities and continuing contracts).

In prior years, we noted instances where the payee listed on a check did not match the payee listed in the City's disbursement records. This failure to maintain document control effectively removes any audit trail and could permit misappropriation. We noted no repeat occurrences during the audit.

In prior years, most time cards were signed by the mayor, so we recommended that someone with first-hand knowledge of the hours worked by the employee sign the time cards. We noted much improvement in this area during the audit.

We again noted that two employees continued to accrue vacation after the maximum was reached. 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. This problem appeared to be corrected prior to year-end. We did not note any repeat instances where time earned and/or used was not posted to the records. We continue to recommend that the City follow all guidelines of the personnel policy and continue their efforts to ensure the payroll records are accurate.

As in the prior year, we noted several instances in which the City did not have signed copies of various documents relating to the water plant construction. Although signed copies can usually be obtained from the project engineer, we continue to recommend that the City make more effort to obtain the signed originals and retain the documentation in its files.

The City's agreement with Professional Services Group (PSG) allowed an annual maintenance and repair limit of \$120,000, and overages were billed at the end of the fiscal year. As in prior years, it was not City practice to obtain any support for the amounts billed to maintenance and repair. During the current year we noted capital expenditures that were charged to the repairs and maintenance account and therefore not capitalized by the City. We continue to recommend that the City obtain the invoices charged to the maintenance and repair allowance and review them monthly for reasonableness. We also recommend that the City use the invoices to determine a more accurate allocation of the expenses to each fund and whether items should be capitalized.

In the prior year, we noted at least one instance where an employee was paid for sick leave in excess of the time available. We noted no repeat occurrences during the audit.

Of the payroll items tested, we again noted three discrepancies. Hours paid did not correspond to the employee time cards, resulting in three underpayments. We continue to recommend that more care be taken to ensure employees are paid no more or no less than the compensation to which they are entitled.

In the prior year, we noted pay requests for construction projects that were signed by the City Clerk instead of the Mayor, who was authorized to sign paperwork. We also noted partial payment estimates for the water plant construction that were not signed by the resident inspector, which is required by the grant agreement. We noted no repeat occurrences during the audit.

As in the prior year, some quarterly reports required by the EPA Grant were not filed timely. In an effort to comply with grant requirements, the City should file all required reports by the due date.

Bond ordinances require the City to maintain a balance equal to anticipated expenses for a two-month period, with any surplus funds deposited to the Depreciation Fund or Sinking Fund. At June 30, 2009 and 2008, the City had acquired cash balances of \$1.654 and \$1.765 million, respectively, in its O&M account. After making the required transfers to the Sinking Fund, Reserve Fund, and Depreciation Fund, the excess remains in the O&M account. Substantial earnings were lost, as the City could have transferred money to higher-yielding instruments. In addition, the City may not be in compliance with all provisions of the bond ordinances. As recommended in the prior year, the City should make transfers of the excess funds according to the bond requirements and take advantage of higher-yielding instruments.

CURRENT YEAR

During payroll testing, we noted that two retired employees were refunded retirement contributions mistakenly withheld on prior checks. As the original contributions were deducted from wages prior to the calculation of withholding taxes, the refunds should have been subject to payroll taxes. We recommend that future refunds be issued through the payroll system for proper tax treatment.

Currently the City provides some employees with the use of vehicles for commuting and cell phones. Any personal use of these employer-provided services falls outside of the working condition fringe benefit exclusion and is taxable income and therefore subject to the withholding of payroll taxes. While there is a possibility that personal cell phone use will cease to be taxable, there are current documentation requirements for vehicles and cell phones, and the City should monitor its policies regarding these issues.

The audit discovered approximately \$8,211 in vendor overpayments. Due to emergency status, a quote was obtained for a new rescue vehicle for the fire department; however, when the invoice was submitted for payment, the vendor overcharged the City \$7,726. In another incident, a vendor informed the City that a credit of \$485 should be taken against an invoice, but the credit was not used. While the City immediately requested refunds from both vendors, we recommend that more effort be made to ensure invoices agree with quoted prices and all available credits are taken prior to payment.

We will be pleased to discuss any of these matters with you and, if desired, assist you in implementing any of these suggestions.

This report is intended for the information of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

February 15, 2010