

**CITY OF HARDINSBURG, KENTUCKY**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING**  
**INFORMATION**  
**For the Year Ended June 30, 2021**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC**  
**ACCOUNTANTS**

**CITY OF HARDINSBURG, KENTUCKY  
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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, 2021, 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, 2021, 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, 2021, 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 note on pages 34 and 35 and the pension and OPEB schedules and notes on pages 36 through 41 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 August 15, 2022 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, Kentucky

August 12, 2022

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 2,262,632	\$ 823,422	\$ 3,086,054
Investments	-	414,258	414,258
Receivables, net:			
Accounts - trade	-	401,719	401,719
Franchise fees	4,431	-	4,431
Miscellaneous	18,060	7,487	25,547
Taxes	84,932	-	84,932
Intergovernmental	7,635	-	7,635
Internal balances	69,432	(69,432)	-
Prepaid expenses	12,943	24,028	36,971
<b>Total Current Assets</b>	<b>2,460,065</b>	<b>1,601,482</b>	<b>4,061,547</b>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,878,392	1,878,392
Capital assets:			
Land and construction in process	294,645	275,161	569,806
Other capital assets, net of depreciation	1,825,675	33,857,132	35,682,807
<b>Total Noncurrent Assets</b>	<b>2,120,320</b>	<b>36,010,685</b>	<b>38,131,005</b>
<b>Total Assets</b>	<b>4,580,385</b>	<b>37,612,167</b>	<b>42,192,552</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred amount on debt refundings	-	9,150	9,150
Deferred amounts related to pensions	341,397	84,824	426,221
Deferred amounts related to OPEB	166,337	94,650	260,987
<b>Total Deferred Outflows of Resources</b>	<b>507,734</b>	<b>188,624</b>	<b>696,358</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	133,702	-	133,702
Accrued expenses	100	25,579	25,679
Interest payable	-	118,182	118,182
Accrued vacation and payroll	14,014	13,059	27,073
Due to employees	15,487	-	15,487
Unearned revenue	8,582	47,266	55,848
Bonds and loans payable	-	1,259,173	1,259,173
<b>Total Current Liabilities</b>	<b>171,885</b>	<b>1,463,259</b>	<b>1,635,144</b>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	314,767	314,767
Due to Greenshore customers	-	21,621	21,621
Loans payable	-	8,264,574	8,264,574
Revenue bonds payable	-	10,266,754	10,266,754
Net pension liability	1,326,135	531,142	1,857,277
Net OPEB liability	406,832	167,174	574,006
<b>Total Noncurrent Liabilities</b>	<b>1,732,967</b>	<b>19,566,032</b>	<b>21,298,999</b>
<b>Total Liabilities</b>	<b>1,904,852</b>	<b>21,029,291</b>	<b>22,934,143</b>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred amounts related to pensions	15,785	140,513	156,298
Deferred amounts related to OPEB	48,997	87,959	136,956
<b>Total Deferred Inflows of Resources</b>	<b>64,782</b>	<b>228,472</b>	<b>293,254</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	2,120,320	14,329,321	16,449,641
Restricted	96,132	1,977,883	2,074,015
Unrestricted	902,033	235,824	1,137,857
<b>Total Net Position</b>	<b>\$ 3,118,485</b>	<b>\$ 16,543,028</b>	<b>\$ 19,661,513</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Governmental Activities</u></b>							
General government	\$ 410,480	\$ -	\$ 228,696	\$ -	\$ (181,784)	\$ -	\$ (181,784)
Streets and maintenance	136,080	-	-	82,424	(53,656)	-	(53,656)
Police department	685,528	946	32,832	-	(651,750)	-	(651,750)
Fire department	93,208	64,495	11,050	-	(17,663)	-	(17,663)
<b>Total Governmental Activities</b>	<b>1,325,296</b>	<b>65,441</b>	<b>272,578</b>	<b>82,424</b>	<b>(904,853)</b>	<b>-</b>	<b>(904,853)</b>
<b><u>Business-Type Activities</u></b>							
Water	3,749,925	3,962,567	-	27,379	-	240,021	240,021
Sewer	553,797	542,679	-	-	-	(11,118)	(11,118)
Sanitation	453,563	368,230	-	-	-	(85,333)	(85,333)
<b>Total Business-Type Activities</b>	<b>4,757,285</b>	<b>4,873,476</b>	<b>-</b>	<b>27,379</b>	<b>-</b>	<b>143,570</b>	<b>143,570</b>
<b>Total Primary Government</b>	<b>\$ 6,082,581</b>	<b>\$ 4,938,917</b>	<b>\$ 272,578</b>	<b>\$ 109,803</b>	<b>\$ (904,853)</b>	<b>\$ 143,570</b>	<b>\$ (761,283)</b>
<b><u>General Revenues</u></b>							
Property taxes					\$ 584,892	\$ -	\$ 584,892
Insurance premium taxes					324,776	-	324,776
Franchise fees					43,860	-	43,860
Licenses and permits					24,935	-	24,935
Interest income					3,237	32,366	35,603
Miscellaneous					61,207	78,967	140,174
Disposal of fixed assets					5,563	2,610	8,173
<b>Total</b>					<b>1,048,470</b>	<b>113,943</b>	<b>1,162,413</b>
<b>Changes in Net Position</b>					<b>143,617</b>	<b>257,513</b>	<b>401,130</b>
<b>Net Position - Beginning of Year</b>					<b>2,974,868</b>	<b>16,285,515</b>	<b>19,260,383</b>
<b>Net Position - End of Year</b>					<b>\$ 3,118,485</b>	<b>\$ 16,543,028</b>	<b>\$ 19,661,513</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2021**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 2,262,632
Receivables, net:	
Franchise fees	4,431
Miscellaneous	18,060
Taxes	84,932
Intergovernmental	7,635
Prepaid expenses	12,943
Due from other funds	69,432
<b>Total Assets</b>	<b>\$ 2,460,065</b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 133,702
Accrued expenses	100
Accrued payroll	6,793
Due to employees	15,487
Unearned revenue	8,582
<b>Total Liabilities</b>	<b>164,664</b>
<b><u>Fund Balance</u></b>	
Nonspendable	12,943
Restricted	96,132
Assigned	114,798
Unassigned	2,071,528
<b>Total Fund Balance</b>	<b>2,295,401</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 2,460,065</b>

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

<b>Total Governmental Fund Balance</b>		\$ 2,295,401
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.		2,120,320
Deferred inflows of resources are not reported in the governmental funds.		442,952
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Accrued vacation	(7,221)	
Net pension liability	(1,326,135)	
Net OPEB liability	(406,832)	
<b>Total Net Position of Governmental Activities</b>		<b>\$ 3,118,485</b>

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



**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 584,892
Insurance premium taxes	324,776
Licenses and permits	24,935
Rental income	18,985
Interest income	3,237
Miscellaneous	4,184
Donations	50
Franchise fees	43,860
Fire department subscription fees and runs	64,495
Intergovernmental revenues	355,002
<b>Total Revenues</b>	<b>1,424,416</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	54,978
Administrative travel	430
Utilities	18,491
Insurance	4,087
Industrial development	4,000
Office expense	8,915
Advertising and printing	1,493
Professional fees	13,454
Repairs and maintenance	6,924
Supplies	1,429
Miscellaneous	5,481
Police department	473,454
Fire department	93,208
Streets and maintenance	136,080
Capital outlay	207,996
<b>Total Expenditures</b>	<b>1,030,420</b>
<b>Excess of Revenues Over Expenditures</b>	<b>393,996</b>
<b><u>Other Financing Sources</u></b>	
Proceeds from sale of fixed assets	7,900
Insurance recoveries - impaired assets	37,908
<b>Total Other Financing Sources</b>	<b>45,808</b>
<b>Net Changes in Fund Balance</b>	<b>439,804</b>
<b>Fund Balance - Beginning of Year</b>	<b>1,855,597</b>
<b>Fund Balance - End of Year</b>	<b>\$ 2,295,401</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

**Net Changes in Fund Balance - Governmental Fund** \$ 439,804

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. (85,204)

The governmental funds report only the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the book value of the disposed assets. (2,337)

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. (219,039)

The Statement of Activities reports donated assets as revenues not included in the government fund, 1,025

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. 9,368

**Changes in Net Position of Governmental Activities** \$ 143,617

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2021**

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 771,756	\$ 18,325	\$ 33,341	\$ 823,422
Investments	378,671	35,587	-	414,258
Receivables, net:				
Accounts - trade	321,730	47,508	32,481	401,719
Miscellaneous	4,607	1,440	1,440	7,487
Prepaid expenses	13,772	8,882	1,374	24,028
<b>Total Current Assets</b>	<b>1,490,536</b>	<b>111,742</b>	<b>68,636</b>	<b>1,670,914</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,836,910	41,482	-	1,878,392
Capital assets:				
Land and construction in process	137,000	138,161	-	275,161
Other capital assets, net of depreciation	29,782,824	3,855,592	218,716	33,857,132
<b>Total Noncurrent Assets</b>	<b>31,756,734</b>	<b>4,035,235</b>	<b>218,716</b>	<b>36,010,685</b>
<b>Total Assets</b>	<b>33,247,270</b>	<b>4,146,977</b>	<b>287,352</b>	<b>37,681,599</b>
<b>Deferred Outflows of Resources</b>				
Deferred amount on debt refundings	7,026	2,124	-	9,150
Deferred amounts related to pensions	42,904	30,876	11,044	84,824
Deferred amounts related to OPEB	63,251	18,062	13,337	94,650
<b>Total Deferred Outflows of Resources</b>	<b>113,181</b>	<b>51,062</b>	<b>24,381</b>	<b>188,624</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Due to other funds	59,766	4,639	5,027	69,432
Accrued expenses	25,579	-	-	25,579
Interest payable	112,552	5,630	-	118,182
Accrued vacation and payroll	9,653	1,419	1,987	13,059
Unearned revenue	47,266	-	-	47,266
Current portion of long-term debt	1,075,283	151,607	32,283	1,259,173
<b>Total Current Liabilities</b>	<b>1,330,099</b>	<b>163,295</b>	<b>39,297</b>	<b>1,532,691</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	314,767	-	-	314,767
Due to Greenshore customers	21,621	-	-	21,621
Loans payable	6,729,896	1,501,509	33,169	8,264,574
Revenue bonds payable	9,994,855	271,899	-	10,266,754
Net pension liability	397,264	56,245	77,633	531,142
Net OPEB liability	125,036	17,703	24,435	167,174
<b>Total Noncurrent Liabilities</b>	<b>17,583,439</b>	<b>1,847,356</b>	<b>135,237</b>	<b>19,566,032</b>
<b>Total Liabilities</b>	<b>18,913,538</b>	<b>2,010,651</b>	<b>174,534</b>	<b>21,098,723</b>
<b>Deferred Inflows of Resources</b>				
Deferred amounts related to pensions	105,095	14,880	20,538	140,513
Deferred amounts related to OPEB	65,788	9,314	12,857	87,959
<b>Total Deferred Inflows of Resources</b>	<b>170,883</b>	<b>24,194</b>	<b>33,395</b>	<b>228,472</b>
<b>Net Position</b>				
Net investment in capital assets	12,105,195	2,070,862	153,264	14,329,321
Restricted for capital and debt service	1,900,814	77,069	-	1,977,883
Unrestricted	270,021	15,263	(49,460)	235,824
<b>Total Net Position</b>	<b>\$ 14,276,030</b>	<b>\$ 2,163,194</b>	<b>\$ 103,804</b>	<b>\$ 16,543,028</b>

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

**CITY OF HARDINBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Enterprise Funds</b>			
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Total</b>
	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Total</b>
<b>Operating Revenues</b>				
Charges for services	\$ 3,782,990	\$ 535,632	\$ 364,989	\$ 4,683,611
Penalty charges	47,644	6,147	3,241	57,032
Connection fees	131,933	900	-	132,833
<b>Total Operating Revenues</b>	<b>3,962,567</b>	<b>542,679</b>	<b>368,230</b>	<b>4,873,476</b>
<b>Operating Expenses</b>				
Salaries and benefits	325,063	15,970	61,907	402,940
Maintenance and supplies	67,322	4,446	10,703	82,471
Chemicals	50,852	-	-	50,852
Contract operations	1,202,395	220,609	219,366	1,642,370
Professional fees	17,441	3,205	1,225	21,871
Office and advertising	41,607	14,336	13,920	69,863
Landfill fees	-	-	79,897	79,897
Depreciation	1,191,634	193,903	54,480	1,440,017
Rental expense	5,400	3,300	4,800	13,500
Insurance	29,942	10,059	1,840	41,841
Utilities	376,969	57,944	1,203	436,116
Miscellaneous	2,990	144	540	3,674
<b>Total Operating Expenses</b>	<b>3,311,615</b>	<b>523,916</b>	<b>449,881</b>	<b>4,285,412</b>
<b>Operating Income (Loss)</b>	<b>650,952</b>	<b>18,763</b>	<b>(81,651)</b>	<b>588,064</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	29,815	2,474	77	32,366
Rental income	50,186	-	-	50,186
Other income	4,015	-	1,398	5,413
Gain on disposal of fixed assets	-	2,610	-	2,610
Insurance recoveries - impaired assets	23,082	143	143	23,368
Interest expense	(438,310)	(29,881)	(3,682)	(471,873)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(331,212)</b>	<b>(24,654)</b>	<b>(2,064)</b>	<b>(357,930)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>319,740</b>	<b>(5,891)</b>	<b>(83,715)</b>	<b>230,134</b>
<b>Capital Contributions</b>	<b>27,379</b>	<b>-</b>	<b>-</b>	<b>27,379</b>
<b>Changes in Net Position</b>	<b>347,119</b>	<b>(5,891)</b>	<b>(83,715)</b>	<b>257,513</b>
<b>Net Position - Beginning of Year</b>	<b>13,928,911</b>	<b>2,169,085</b>	<b>187,519</b>	<b>16,285,515</b>
<b>Net Position - End of Year</b>	<b>\$ 14,276,030</b>	<b>\$ 2,163,194</b>	<b>\$ 103,804</b>	<b>\$ 16,543,028</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b><u>Cash Flows from Operating Activities:</u></b>				
Cash received from customers and others	\$ 4,018,776	\$ 541,640	\$ 368,000	\$ 4,928,416
Cash payments to suppliers for goods and services	(1,823,757)	(329,636)	(346,040)	(2,499,433)
Cash payments to employees for services	(266,680)	(41,250)	(53,295)	(361,225)
<b>Net Cash Provided by Operating Activities</b>	<b>1,928,339</b>	<b>170,754</b>	<b>(31,335)</b>	<b>2,067,758</b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(316,426)	(24,122)	-	(340,548)
Proceeds from sale of capital assets	-	2,610	-	2,610
Capital contributions	27,379	-	-	27,379
Payment on Greenshore liability	(1,879)	-	-	(1,879)
Insurance recoveries	23,082	143	-	23,225
Proceeds from borrowing	128,647	-	-	128,647
Principal paid on debt	(1,105,768)	(145,749)	(51,277)	(1,302,794)
Interest paid on debt	(446,831)	(33,184)	(3,682)	(483,697)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,691,796)</b>	<b>(200,302)</b>	<b>(54,959)</b>	<b>(1,947,057)</b>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>				
Interfund activity	(46,719)	11,124	5,027	(30,568)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(46,719)</b>	<b>11,124</b>	<b>5,027</b>	<b>(30,568)</b>
<b><u>Cash Flows from Investing Activities:</u></b>				
Interest income	30,401	2,962	77	33,440
Other non-operating income and expenses	55,578	-	1,540	57,118
<b>Net Cash Provided by Investing Activities</b>	<b>85,979</b>	<b>2,962</b>	<b>1,617</b>	<b>90,558</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>275,803</b>	<b>(15,462)</b>	<b>(79,650)</b>	<b>180,691</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,711,534</b>	<b>110,856</b>	<b>112,991</b>	<b>2,935,381</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,987,337</b>	<b>\$ 95,394</b>	<b>\$ 33,341</b>	<b>\$ 3,116,072</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating income (loss)	\$ 650,952	\$ 18,763	\$ (81,651)	\$ 588,064
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,191,634	193,903	54,480	1,440,017
Change in assets and liabilities:				
Receivables, net	28,776	(1,039)	(230)	27,507
Prepaid expenses	(9,263)	(8,325)	(816)	(18,404)
Deferred outflows related to pensions and OPEB	31,798	(29,484)	2,431	4,745
Accounts payable	(18,276)	(7,268)	(11,730)	(37,274)
Accrued expenses	(1,299)	-	-	(1,299)
Other liabilities	27,433	(74)	(4)	27,355
Net pension and OPEB liabilities	(4,400)	(216)	(79)	(4,695)
Deferred inflows related to pensions and OPEB	30,984	4,494	6,264	41,742
<b>Total Adjustments</b>	<b>1,277,387</b>	<b>151,991</b>	<b>50,316</b>	<b>1,479,694</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,928,339</b>	<b>\$ 170,754</b>	<b>\$ (31,335)</b>	<b>\$ 2,067,758</b>

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, 2021**

**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, 2021**

**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, 2021**

**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 \$61,276 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, 2021, the allowances for uncollectible trade and property tax receivables were \$76,914 and \$13,016, 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, 2021**

**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 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, 2021**

**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.

**NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING**

Normally, prior to June 30, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means for financing them. Deficit budgets are contrary to state law. Public hearings are conducted to obtain citizen comments on the proposed budget and the budget is legally adopted through passage of an appropriation ordinance by City Council. The City Council approves, by ordinance, total budget appropriations only. Budget amendments are made as needed throughout the year.

Actual expenditures and operating transfers may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**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, 2021, the reported amount of the City's cash and cash equivalents was \$4,964,446 and the bank balance was \$5,034,685. 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, \$643,002 of the City's deposits was insured and \$4,792,297 was collateralized with securities held by the pledging financial institution on behalf of the City, but not in the City's name. \$75,606 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, \$134,126 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 \$280,132 is uninsured and unregistered. These investments are valued using quoted market prices (Level 1 input), which was \$414,258 at year-end, and the balance is subject to investment risks, including possible loss of principal.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**Restricted Cash**

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

**Reconciliation of Cash**

For purposes of the Statement of Cash Flows on page 11, cash and cash equivalents as of June 30, 2021 consisted of the following:

	<u>O&amp;M Fund</u>	<u>WWT Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash	\$ 771,756	\$18,325	\$33,341	\$ 823,422
Restricted cash	1,836,910	41,482	-	1,878,392
Investments	378,671	35,587	-	414,258
<b>Total</b>	<b>\$2,987,337</b>	<b>\$95,394</b>	<b>\$33,341</b>	<b>\$3,116,072</b>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**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, 2021 are summarized in the following table.

<u>Bond Series</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Bond Maturity</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,124,200
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,706,500
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$1,400,000
2019 (R)	11/6/19	2.25% to 3%	2/1/46	\$6,675,000	\$6,425,000

R – Denotes refunding bond  
\* – Refunded with 2019 bond

Bonds Payable (Concluded)

On November 6, 2019 the City obtained \$6,675,000 in refunding bonds with interest rates ranging between 2.25% and 3% from the Kentucky Bond Corporation bond pool. The City obtained the bonds to refund \$3,981,000 of outstanding 2006A bonds and \$2,213,000 of outstanding 2006B bonds with 4.125% interest rates. The current refunding reduced total debt service over the next twenty-seven years by \$629,602. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$439,221.

Loans Payable

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 \$44,026.

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 \$1,527,736.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

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 \$949,144.

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 \$1,671,870.

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 \$315,789 and \$158,812, 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 \$2,053,684.

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 \$439,833.

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 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 \$1,128,515.

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 \$65,453.

During the year ended June 30, 2019, the City secured a \$756,664 loan from KIA for water line expansion projects. The estimated annual payments are \$19,127, including interest at 2%, and twenty annual transfers of \$1,900 to the replacement and maintenance reserve account. The loan balance at year-end was \$741,186.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

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, 2021, including interest payments are as follows:

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2022	\$ 427,700	\$ 329,031	\$ 831,473	\$ 93,826
2023	445,200	315,130	825,758	84,601
2024	462,100	300,616	785,676	75,709
2025	484,100	285,506	793,654	67,731
2026	501,600	270,564	801,716	59,779
2027 - 2031	1,839,300	1,181,104	3,157,159	188,651
2032 - 2036	1,847,900	919,698	1,532,804	63,575
2037 - 2041	2,043,600	622,179	367,808	11,923
2042 - 2046	2,148,300	271,045	-	-
2047 - 2050	455,900	31,608	-	-
Totals	<u>\$10,655,700</u>	<u>\$4,526,481</u>	<u>\$9,096,048</u>	<u>\$645,795</u>

**Changes in Noncurrent Liabilities**

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2021 were as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due In One Year
<b><u>Business-Type Activities</u></b>					
Bonds payable	\$11,151,600	\$ -	\$495,900	\$10,655,700	\$ 427,700
Loans payable	9,774,295	128,647	806,894	9,096,048	831,473
Premium	59,234	-	5,838	53,396	-
Discount	(15,227)	-	(584)	(14,643)	-
Net bonds and loans payable	20,969,902	128,647	1,308,048	19,790,501	1,259,173
Customer deposits	287,335	94,037	66,605	314,767	-
Due to Greenshore	23,500	-	1,879	21,621	-
	<u>\$21,280,737</u>	<u>\$ 226,684</u>	<u>\$1,376,532</u>	<u>\$20,126,889</u>	<u>\$1,259,173</u>

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

**NOTE E - RESTRICTED NET POSITION**

Restricted net position of the Governmental Activities included \$89,816 for road aid and \$6,316 for drug enforcement activities, while restricted net position of the Business-Type Activities included \$1,878,392 for capital and debt service.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE F - FUND BALANCE**

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 12,943
Restricted:	
Road aid	89,816
Drug enforcement	6,316
Total Restricted	96,132
Assigned:	
Industrial development	108,791
Fire department	6,008
Total Assigned	114,799
Unassigned	2,071,528
Total Fund Balance	\$2,295,401

**NOTE G - PENSION PLANS**

General Information about the County Employees Retirement System

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

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

**CERS Non-hazardous**

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

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

**CERS Hazardous**

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

Contributions – Employees in all tiers contributed 5% of their salaries for non-hazardous and 8% for hazardous, and those in Tiers 2 and 3 also contributed an additional 1% of their salaries for insurance. Participating employers contributed 24.06% (19.30% for pension and 4.76% for health insurance) and 39.58% (30.06% pension; 9.52% insurance) of members’ non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2021.

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, 2021, the City reported a liability of \$1,857,277 for its proportionate share of the net pension liability for CERS, which included \$590,814 for non-hazardous and \$1,266,463 for hazardous. The total pension liability, net pension liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date of June 30, 2019 to the plan’s fiscal year ended June 30, 2020, 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, 2019 through June 30, 2020. At June 30, 2020, the City’s proportion was 0.007703% non-hazardous and 0.042005% hazardous, a decrease of 0.002147% and an increase of 0.002686%, respectively, over the prior year.

For the year ended June 30, 2021, the City recognized total pension expense of \$309,679 for CERS, which included \$18,989 for non-hazardous and \$290,690 for hazardous.

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



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,011	\$ -
Changes of assumptions	71,101	-
Net difference between projected and actual earnings on pension plan investments	43,315	-
Changes in proportion and differences between City contributions and proportionate share of contributions	148,741	156,298
City contributions subsequent to the measurement date	109,053	-
	\$426,221	\$156,298

\$109,053 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, 2022. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2022	\$72,436
2023	26,536
2024	35,973
2025	25,925

Actuarial assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions (updated from the actuarial assumptions used for June 30, 2019):

Inflation Rate:	2.30%
Payroll Growth Rate:	2.00%
Projected Salary Increases:	3.30% to 10.30%, varies by service for CERS non-hazardous 3.55% to 19.05%, varies by service for CERS hazardous
Investment Rate of Return:	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the non-hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE G - PENSION PLANS (CONCLUDED)**

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

The long-term expected rates of return were determined by using a building-block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were 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 rate 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>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	<u>100.00%</u>	<u>3.96%</u>

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 the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease <u>5.25%</u>	Current Discount <u>6.25%</u>	1% Increase <u>7.25%</u>
Non-hazardous	\$728,602	\$590,814	\$476,720
Hazardous	\$1,565,168	\$1,266,463	\$1,022,641

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, 2021**

**NOTE H - 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](http://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 G) 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 24.06% (19.30% for pension and 4.76% for health insurance) and 39.58% (30.06% pension; 9.52% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2021.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE H - 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, 2021, the City reported a liability of \$574,006 for its proportionate share of the net OPEB liability for CERS, which included \$185,956 for non-hazardous and \$388,050 for hazardous. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled forward from the valuation date of June 30, 2019 to the plan's fiscal year ended June 30, 2020, 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, 2019 through June 30, 2020. At June 30, 2020, the City's proportion was 0.007701% non-hazardous and 0.041992% hazardous, a decrease of 0.002146% and an increase of 0.00268%, respectively, over the prior year.

For the year ended June 30, 2021, the City recognized total OPEB expense of \$94,659 for CERS, which included \$10,307 for non-hazardous and \$84,352 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	\$ 44,385	\$69,845
Changes of assumptions	95,651	555
Net difference between projected and actual earnings on OPEB plan investments	23,407	-
Changes in proportion and differences between City contributions and proportionate share of contributions	59,271	66,556
City contributions subsequent to the measurement date	38,273	-
	\$260,987	\$136,956

\$38,273 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, 2022. 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
2022	\$30,373
2023	22,188
2024	18,955
2025	8,630
2026	5,612
Thereafter	-

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE H - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

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

Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date:	June 30, 2019
Inflation Rate:	2.30%
Payroll Growth Rate:	2.00%
Projected Salary Increases:	3.30% to 10.30%, varies by service for CERS non-hazardous 3.55% to 19.05%, varies by service for CERS hazardous
Investment Rate of Return:	6.25%
Healthcare Trend Rates (under age 65):	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Healthcare Trend Rates (age 65 and over):	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the non-hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 G (target allocations and real rates of return are the same for the CERS Pension and Insurance Funds).

Discount Rate – The discount rate used to measure the total OPEB liability was 5.34% for non-hazardous and 5.30% for hazardous. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. 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,

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE H - OTHER POST-EMPLOYMENT BENEFITS (CONCLUDED)**

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

the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, the actuary may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 50 of GASB Statement No. 74).

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 5.34% for non-hazardous and 5.30% 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 4.34%	Current Discount 5.34%	1% Increase 6.34%
Non-hazardous	\$238,899	\$185,956	\$142,472
Hazardous	\$526,768	\$388,050	\$276,272

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	\$143,976	\$185,956	\$236,899
Hazardous	\$277,312	\$388,050	\$524,193

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB 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, 2021**

**NOTE I - CAPITAL ASSETS**

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

	July 1, 2020	Additions	Deletions	June 30, 2021
<b><u>Governmental Activities</u></b>				
Not Depreciated:				
Land	\$ 295,145	\$ -	\$ (500)	\$ 294,645
Subtotal	<u>295,145</u>	<u>-</u>	<u>(500)</u>	<u>294,645</u>
Depreciated:				
Buildings and improvements	978,648	28,000	(16,852)	989,796
Furniture and fixtures	75,356	-	(20,985)	54,371
Equipment	943,993	10,808	(140,620)	814,181
Vehicles	1,152,226	122,439	(22,000)	1,252,665
Parks	168,530	-	-	168,530
Infrastructure	2,076,476	47,774	-	2,124,250
Subtotal	<u>5,395,229</u>	<u>209,021</u>	<u>(200,457)</u>	<u>5,403,793</u>
Accumulated Depreciation	<u>3,483,538</u>	<u>293,201</u>	<u>(198,621)</u>	<u>3,578,118</u>
Net Capital Assets	<u>\$ 2,206,836</u>	<u>\$ (84,180)</u>	<u>\$ 2,336</u>	<u>\$ 2,120,320</u>
<b><u>Business-Type Activities</u></b>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Subtotal	<u>275,161</u>	<u>-</u>	<u>-</u>	<u>275,161</u>
Depreciated:				
Buildings and improvements	311,125	-	-	311,125
Equipment	1,001,677	69,116	(74,780)	996,013
Vehicles	142,086	-	(38,580)	103,506
Treatment plants	15,558,675	109,285	-	15,667,960
Distribution system	28,517,931	33,500	-	28,551,431
Wastewater plant	7,321,054	-	-	7,321,054
Subtotal	<u>52,852,548</u>	<u>211,901</u>	<u>(113,360)</u>	<u>52,951,089</u>
Accumulated Depreciation	<u>17,767,300</u>	<u>1,440,017</u>	<u>(113,360)</u>	<u>19,093,957</u>
Net Capital Assets	<u>\$35,360,409</u>	<u>\$(1,228,115)</u>	<u>\$ -</u>	<u>\$34,132,293</u>

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2020	Additions	Deletions	June 30, 2021
<b><u>Governmental Activities</u></b>				
Buildings and improvements	\$ 531,438	\$ 29,922	\$ (15,016)	\$ 546,344
Furniture and fixtures	67,558	990	(20,985)	47,563
Equipment	641,453	58,466	(140,620)	559,299
Vehicles	891,610	63,473	(22,000)	933,083
Parks	120,650	8,863	-	129,513
Infrastructure	1,230,829	131,487	-	1,362,316
Total	<u>\$ 3,483,538</u>	<u>\$ 293,201</u>	<u>\$ (198,621)</u>	<u>\$ 3,578,118</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

	July 1, 2020	Additions	Deletions	June 30, 2021
<b><u>Business-Type Activities</u></b>				
Buildings and improvements	\$ 196,387	\$ 10,653	\$ -	\$ 207,040
Equipment	604,978	93,045	(74,780)	623,243
Vehicles	92,941	9,404	(38,580)	63,765
Treatment plants	5,013,046	419,560	-	5,432,606
Distribution system	8,536,211	718,735	-	9,254,946
Wastewater plant	3,323,737	188,620	-	3,512,357
Total	<u>\$17,767,300</u>	<u>\$1,440,017</u>	<u>\$ (113,360)</u>	<u>\$19,093,957</u>

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

<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>	
General government	\$149,535	O&M	\$1,191,635
Streets and maintenance	2,511	Wastewater	193,903
Police department	29,545	Sanitation	54,479
Fire department	111,610		
	<u>\$293,201</u>		<u>\$1,440,017</u>

**NOTE J - 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, \$47,266 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 \$8,582 in unearned revenue for insurance premium taxes received but not yet earned.

**NOTE K - INTERFUND ACTIVITY**

During the year ended June 30, 2021, the O&M Fund reduced its operating loan to the General Fund by \$98,650. The remaining balances owed to the General Fund are for accounts payable paid on behalf of the proprietary funds but not reimbursed. The following interfund balances existed at year-end:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose</u>
O&M Fund	General Fund	\$ 1,350	Operating loan
O&M Fund	General Fund	58,416	Accounts payable
Sanitation Fund	General Fund	5,027	Accounts payable
WWT Fund	General Fund	4,639	Accounts payable
		<u>\$69,432</u>	

**NOTE L - 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.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

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

The City, 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, 2021 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 \$1,555,194, which included an annual repair and maintenance allowance of \$224,400. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2020-2021 is \$1,588,464, which includes an estimated repair and maintenance allowance of \$224,400.

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, 2021, the City billed \$170,608 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, 2021, the City billed Cloverport \$153,639 for water.

Early in 2020, the United States was struck with the COVID-19 virus. It has severely impacted economies around the globe, as businesses were forced to cease or limit operations for long or indefinite periods of time. The measures taken to contain the spread of the virus have resulted in an economic slowdown. While some steps have been taken to stabilize economic conditions, the effectiveness of these responses remains unclear at this time. It is not possible to reliably estimate the duration and severity of the consequences of the pandemic, as well as their impact on the financial position of the City for future periods.

**NOTE M - COMMITMENTS UNDER LEASES**

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

The City entered into a new copier lease agreement in May 2020, with minimum future rental payments totaling \$2,306 over five years. The monthly payments are \$38, and the City incurred \$456 in lease expense for the fiscal year

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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

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

**NOTE O - SUBSEQUENT EVENTS**

In August 2022, the City was awarded a \$1,379,590 grant to expand water service to the Bewleyville area. A number of equipment purchases were made, including police and fire vehicles and a new tractor for the wastewater plant.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 541,515	\$ 582,610	\$ 584,892	\$ 2,282
Insurance premium taxes	294,000	332,900	324,776	(8,124)
Licenses and permits	25,050	23,455	24,935	1,480
Rental income	19,155	18,985	18,985	-
Interest income	4,550	4,531	3,237	(1,294)
Miscellaneous	806,778	44,031	4,184	(39,847)
Donations	-	-	50	50
Franchise fees	44,950	44,950	43,860	(1,090)
Fire department subscription fees and runs	62,890	63,560	64,495	935
Intergovernmental revenues	91,635	349,284	355,002	5,718
<b>Total Revenues</b>	1,890,523	1,464,306	1,424,416	(39,890)
<b>Expenditures</b>				
Current:				
General government	138,976	133,359	119,682	13,677
Police department	513,722	507,526	473,454	34,072
Fire department	132,592	137,510	93,208	44,302
Streets and maintenance	148,715	137,123	136,080	1,043
Capital outlay	605,000	557,288	207,996	349,292
<b>Total Expenditures</b>	1,539,005	1,472,806	1,030,420	442,386
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	351,518	(8,500)	393,996	402,496
<b>Other Financing Sources</b>				
Proceeds from sale of fixed assets	2,500	8,500	7,900	(600)
Insurance recoveries	-	-	37,908	37,908
<b>Total Other Financing Sources</b>	2,500	8,500	45,808	37,308
<b>Net Changes in Fund Balance</b>	354,018	-	439,804	439,804
<b>Fund Balance - Beginning of Year</b>	696,249	982,937	1,864,558	881,621
<b>Fund Balance - End of Year</b>	\$ 1,050,267	\$ 982,937	\$ 2,304,362	\$ 1,321,425

See accompanying note to budgetary comparison schedule.

**CITY OF HARDINSBURG, KENTUCKY  
NOTE TO BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2021**

**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 7 Fiscal Years\***

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Non-Hazardous</u></b>							
City's proportion of the net pension liability	0.00770%	0.00985%	0.01279%	0.01221%	0.01066%	0.01286%	0.01257%
City's proportionate share of the net pension liability	\$ 590,814	\$ 692,755	\$ 778,645	\$ 714,747	\$ 524,876	\$ 552,942	\$ 408,000
City's covered payroll	\$ 197,326	\$ 248,458	\$ 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	299.41%	278.82%	245.72%	240.40%	206.40%	184.28%	141.44%
Plan fiduciary net position as a percentage of the total pension liability	47.814%	50.447%	53.542%	53.325%	55.503%	59.968%	66.801%
<b><u>Hazardous</u></b>							
City's proportion of the net pension liability	0.04201%	0.03932%	0.02835%	0.02758%	0.02736%	0.02043%	0.02310%
City's proportionate share of the net pension liability	\$ 1,266,463	\$ 1,086,107	\$ 685,536	\$ 616,997	\$ 469,559	\$ 313,604	\$ 278,000
City's covered payroll	\$ 245,412	\$ 223,929	\$ 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	516.06%	485.02%	434.15%	407.56%	330.06%	300.11%	237.63%
Plan fiduciary net position as a percentage of the total pension liability	44.112%	46.633%	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 the 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 7 Fiscal Years\*

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Non-Hazardous</u></b>							
Contractually required contribution	\$ 37,847	\$ 38,084	\$ 40,300	\$ 45,884	\$ 41,476	\$ 31,585	\$ 38,257
Contributions in relation to the contractually required contribution	<u>(37,847)</u>	<u>(38,084)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 196,098	\$ 197,326	\$ 248,458	\$ 316,882	\$ 297,320	\$ 254,305	\$ 300,054
Contributions as a percentage of covered payroll	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%
<b><u>Hazardous</u></b>							
Contractually required contribution	\$ 71,206	\$ 73,771	\$ 55,691	\$ 35,055	\$ 32,866	\$ 28,823	\$ 21,662
Contributions in relation to the contractually required contribution	<u>(71,206)</u>	<u>(73,771)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 236,879	\$ 245,412	\$ 223,929	\$ 157,904	\$ 151,388	\$ 142,266	\$ 104,496
Contributions as a percentage of covered payroll	30.06%	30.06%	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 reported in the Schedule of the City 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 4 Fiscal Years\***

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><u>Non-Hazardous</u></b>				
City's proportion of the net OPEB liability	0.00770%	0.00985%	0.01279%	0.01221%
City's proportionate share of the net OPEB liability	\$ 185,956	\$ 165,622	\$ 226,995	\$ 245,483
City's covered payroll	\$ 197,326	\$ 248,458	\$ 316,882	\$ 297,320
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	51.670%	60.438%	57.622%	52.394%
<b><u>Hazardous</u></b>				
City's proportion of the net OPEB liability	0.04199%	0.03931%	0.02835%	0.02758%
City's proportionate share of the net OPEB liability	\$ 388,050	\$ 290,854	\$ 202,110	\$ 227,979
City's covered payroll	\$ 245,412	\$ 223,929	\$ 157,904	\$ 151,388
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	158.12%	129.89%	128.00%	150.59%
Plan fiduciary net position as a percentage of the total OPEB liability	58.841%	64.440%	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 4 Fiscal Years\***

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><u>Non-Hazardous</u></b>				
Contractually required contribution	\$ 9,334	\$ 9,393	\$ 13,069	\$ 14,893
Contributions in relation to the contractually required contribution	<u>(9,334)</u>	<u>(9,393)</u>	<u>(13,069)</u>	<u>(14,893)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 196,098	\$ 197,326	\$ 248,458	\$ 316,882
Contributions as a percentage of covered payroll	4.76%	4.76%	5.26%	4.70%
<b><u>Hazardous</u></b>				
Contractually required contribution	\$ 22,551	\$ 23,363	\$ 23,445	\$ 14,764
Contributions in relation to the contractually required contribution	<u>(22,551)</u>	<u>(23,363)</u>	<u>(23,445)</u>	<u>(14,764)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 236,879	\$ 245,412	\$ 223,929	\$ 157,904
Contributions as a percentage of covered payroll	9.52%	9.52%	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, 2021**

**NOTE A - PENSIONS**

Changes in benefit terms: There were no changes in benefit terms for fiscal years 2015 through 2020, except that 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 for CERS hazardous as of June 30, 2018 was determined using these updated benefit provisions.

Changes in assumptions:

- 2015 - For the measurement date of June 30, 2014, there was no change.
- 2016 - For the measurement date of June 30, 2015, the investment rate of return was changed from 7.75% to 7.50%. The projected salary increase was changed from 4.50% to 4.00%. The inflation rate was changed from 3.50% to 3.25%. The assumed rate of wage inflation was changed from 1.00% to 0.75%. The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.
- 2017 - For the measurement date of June 30, 2016, there was no change.
- 2018 - For the measurement date of June 30, 2017, the investment rate of return was changed from 7.50% to 6.25%. The projected salary increase was changed from 4.00% to 3.05%. The inflation rate was changed from 3.25% to 2.30%. The payroll growth rate changed from 4.00% to 2.00%.
- 2019 - For the measurement date of June 30, 2018, there was no change.
- 2020 - For the measurement date of June 30, 2019, the projected salary increase was changed from 3.05% average to a range of 3.30% to 10.30%, depending on service for CERS nonhazardous and from 3.55% to 19.05% for hazardous.
- 2021 - For the measurement date of June 30, 2020, there was no change.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO PENSION AND OPEB SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2021**

**NOTE B - OPEB**

Changes in benefit terms: There were no changes in benefit terms for fiscal years 2018 through 2020.

Changes in assumptions:

- 2018 - For the measurement date of June 30, 2017, the investment rate of return was changed from 7.50% to 6.25%. The projected salary increase was changed from 4.00% to 3.05%. The inflation rate was changed from 3.25% to 2.30%. The payroll growth rate changed from 4.00% to 2.00%.
- 2019 - For the measurement date of June 30, 2018, the healthcare initial trend rates for those under age 65 changed from 7.25% to 7.00%, and the healthcare initial trend rates for those age 65 and over changed from 5.10% to 5.00%.
- 2020 - For the measurement date of June 30, 2019, the projected salary increase was changed from 3.05% average to a range of 3.30% to 10.30%, depending on service for CERS nonhazardous and from 3.55% to 19.05% for hazardous.
- 2021 - For the measurement date of June 30, 2020, the healthcare initial trend rates for those under age 65 changed from 7.00% to 6.40%, and the healthcare initial trend rates for those age 65 and over changed from 5.00% to 2.90%.

**INDEPENDENT AUDITOR'S 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

### 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 5, 2022.

#### 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 2021-001 to 2021-002, 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 2021-003 through 2021-004.

We noted certain additional matters that we have reported to management in a separate letter dated August 5, 2022.

**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

August 5, 2022

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2021**

**Finding: 2021-001 (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>The City hired a City Clerk in January 2020 that has an accounting degree, but not a CPA. The intention was to work toward the ability to begin developing draft financial statements that conform to GAAP. Almost immediately after hiring said City Clerk, the Covid-19 pandemic hit, affecting many aspects of the City as a municipality, affected by the Governor's Executive Orders. Every effort will be made to develop draft financial statements for 2021-2022.</i>

**Finding: 2021-002 (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 at year-end, 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, 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>With new leadership by the City Clerk and changes in personnel, many of the processes that have always been done are being examined to simplify and cross train all employees so that no particular employee holds job security by sole knowledge of critical functions of the office. Even with the Covid-19 pandemic, the City Clerk and Treasurer are working together to make improvements in 2021-2022 to the accounting functions and in posting transactions timely rather than have numerous year-end adjustments. Adjustments are being monitored more closely to minimize their number and materiality. Progress was made in 2020-2021 but continued improvements will be made.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2021**

**Finding: 2020-003 (Repeat)**

<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>In fiscal year 2020-2021, the City has made arrangements with the financial institution to comply with KRS 91A.060 and is in the process of moving certificates of deposit to another bank as they mature. Sufficient certificates of deposit did not mature during the fiscal year but subsequently have matured and been moved to get below the FDIC threshold at each institution.</i>

**Finding: 2020-004 (Repeat)**

<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 is in the process of amending those returns during a period of time when all sales and utilities tax collected did not get remitted. The issue where the incorrect spreadsheet calculation was used to determine the amounts to remit has been corrected. All corrections were made in August 2021 which is fiscal year 2021-22 and will not be a repeat finding for 2021-2022.</i>



## **MANAGEMENT LETTER**



**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, 2021, 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 August 5, 2022, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated August 5, 2022, on the basic financial statements of the City of Hardinsburg.

**PRIOR YEAR**

As in the prior year, we noted some issues during the testing of seventy-five disbursements. Five disbursements were not supported by purchase orders, five invoices appeared to lack proper approval, two invoices were not cancelled, two disbursements were not supported by receiving reports, one had no supporting invoice, and three were not paid within thirty days. In one instance, the purchase order was after-the-fact. 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 from an authorized individual 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.

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.

During the audit, we discovered issues regarding compensated absences. We noted multiple errors in the spreadsheets used to track vacation and sick time for employees. As mentioned above, employees were allowed to accrue more than the maximum vacation allowed according to City policy. Two employees who resigned were paid for more vacation than they had earned. We recommend that more effort be made to ensure that the proper accruals are being made and that the City's personnel policies are adhered to.

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, Kentucky  
August 5, 2022