

**CITY OF HARDINSBURG, KENTUCKY**  
**Financial Statements with Accompanying Information**  
**For the Year Ended June 30, 2012**  
**and**  
**Report of Independent Certified Public Accountants**

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

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<b>Independent Auditors' Report</b>	1 - 2
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Fund	5
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Fund with the Statement of Activities	7
Statement of Net Assets - Proprietary Funds	8
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	9
Statement of Cash Flows - Proprietary Funds	10
Notes to Financial Statements	11 - 25
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule - General Fund	26
Notes to Required Supplementary Information	27
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	28 - 29
<b>Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i></b>	30 - 31
<b>Schedule of Expenditures of Federal Awards</b>	32
<b>Notes to Schedule of Expenditures of Federal Awards</b>	33
<b>Schedule of Findings and Questioned Costs</b>	34 - 36
<b>Management Letter</b>	37 - 38



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704  
FAX (270) 756-5927

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky, as of June 30, 2012, and the respective changes in financial position (including cash flows, where applicable) of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated February 19, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 26 and 27 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hardinsburg's financial statements. The accompanying Schedule of Expenditures of Federal Awards, required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 19, 2013



**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,015,401	\$ 1,389,917	\$ 2,405,318
Receivables, net:			
Accounts - trade	-	306,992	306,992
Franchise fees	3,191	-	3,191
Miscellaneous	13,680	2,019	15,699
Taxes	54,355	-	54,355
Intergovernmental	31,001	10,015	41,016
Prepaid expenses	493	15,233	15,726
<b>Total Current Assets</b>	<u>1,118,121</u>	<u>1,724,176</u>	<u>2,842,297</u>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,254,007	1,254,007
Investments	-	215,251	215,251
Capital assets:			
Land and construction in process	241,645	5,529,676	5,771,321
Other capital assets, net of depreciation	1,384,841	27,957,685	29,342,526
Unamortized financing costs	-	74,313	74,313
<b>Total Noncurrent Assets</b>	<u>1,626,486</u>	<u>35,030,932</u>	<u>36,657,418</u>
<b>Total Assets</b>	<u>\$ 2,744,607</u>	<u>\$ 36,755,108</u>	<u>\$ 39,499,715</u>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 35,709	\$ 28,466	\$ 64,175
Due on construction contracts	-	665,309	665,309
Due to employee	7,265	-	7,265
Accrued expenses	16,732	10,568	27,300
Interest payable	-	78,375	78,375
Accrued vacation and payroll	14,378	12,936	27,314
Deferred revenue	-	28,600	28,600
Bonds and loans payable	-	731,087	731,087
<b>Total Current Liabilities</b>	<u>74,084</u>	<u>1,555,341</u>	<u>1,629,425</u>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	226,930	226,930
Due on water line construction	-	25,369	25,369
Loans payable	-	8,112,868	8,112,868
Revenue bonds payable	-	12,942,100	12,942,100
Deferred gain on refinancing	-	19,593	19,593
Unamortized bond premium	-	436	436
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>21,327,296</u>	<u>21,327,296</u>
<b>Total Liabilities</b>	<u>74,084</u>	<u>22,882,637</u>	<u>22,956,721</u>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	1,384,841	6,213,414	7,598,255
Restricted for capital and debt service	-	1,242,328	1,242,328
Unrestricted	1,285,682	6,416,729	7,702,411
<b>Total Net Assets</b>	<u>2,670,523</u>	<u>13,872,471</u>	<u>16,542,994</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,744,607</u>	<u>\$ 36,755,108</u>	<u>\$ 39,499,715</u>

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

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)/Revenue and Changes in Net Assets</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Governmental Activities</b>							
General government	\$ 202,807	\$ -	\$ 4,300	\$ 24,606	\$ (173,901)	\$ -	\$ (173,901)
Streets and maintenance	110,399	-	-	54,942	(55,457)	-	(55,457)
Police department	389,852	1,697	29,351	-	(358,804)	-	(358,804)
Fire department	169,720	32,627	8,250	16,350	(112,493)	-	(112,493)
<b>Total Governmental Activities</b>	<b>872,778</b>	<b>34,324</b>	<b>41,901</b>	<b>95,898</b>	<b>(700,655)</b>	<b>-</b>	<b>(700,655)</b>
<b>Business-Type Activities</b>							
Water	2,850,362	2,596,522	-	132,726	-	(121,114)	(121,114)
Sewer	393,758	337,606	-	118,091	-	61,939	61,939
Sanitation	328,963	346,179	-	-	-	17,216	17,216
<b>Total Business-Type Activities</b>	<b>3,573,083</b>	<b>3,280,307</b>	<b>-</b>	<b>250,817</b>	<b>-</b>	<b>(41,959)</b>	<b>(41,959)</b>
<b>Total Primary Government</b>	<b>\$ 4,445,861</b>	<b>\$ 3,314,631</b>	<b>\$ 41,901</b>	<b>\$ 346,715</b>	<b>\$ (700,655)</b>	<b>\$ (41,959)</b>	<b>\$ (742,614)</b>
		<b>General Revenues</b>					
		Property taxes			\$ 392,371	\$ -	\$ 392,371
		Insurance premium taxes			205,459	-	205,459
		Franchise fees			34,958	-	34,958
		Licenses			36,957	-	36,957
		Interest income			4,749	28,515	33,264
		Miscellaneous			32,131	49,642	81,773
		Disposal of fixed assets			7,090	(232)	6,858
		<b>Total</b>			<b>713,715</b>	<b>77,925</b>	<b>791,640</b>
		<b>Changes in Net Assets</b>			<b>13,060</b>	<b>35,966</b>	<b>49,026</b>
		<b>Net Assets - Beginning of Year</b>			<b>2,657,463</b>	<b>13,836,505</b>	<b>16,493,968</b>
		<b>Net Assets - End of Year</b>			<b>\$ 2,670,523</b>	<b>\$ 13,872,471</b>	<b>\$ 16,542,994</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2012**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,015,401
Receivables, net:	
Franchise fees	3,191
Miscellaneous	13,680
Taxes	54,355
Intergovernmental	14,001
Prepaid expenses	493
<b>Total Assets</b>	<b>\$ 1,101,121</b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 35,709
Due to employee	7,265
Accrued expenses	16,732
Accrued payroll	6,091
<b>Total Liabilities</b>	<b>65,797</b>
<b><u>Fund Balance</u></b>	
Nonspendable	493
Restricted	29,249
Assigned	108,335
Unassigned	897,247
<b>Total Fund Balance</b>	<b>1,035,324</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,101,121</b>

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

<b>Total Governmental Fund Balance</b>	<b>\$ 1,035,324</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.	1,626,486
The difference in intergovernmental receivable is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds.	17,000
Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental fund.	(8,287)
<b>Total Net Assets of Governmental Activities</b>	<b>\$ 2,670,523</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, 2012**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 392,371
Insurance premium taxes	205,459
Business licenses	12,663
Auto licenses and stickers	23,039
Building permits	1,255
Rental income	15,885
Interest income	4,749
Miscellaneous	16,955
Donations	7,100
Franchise fees	34,958
Fire department subscription fees	32,127
Intergovernmental revenues	96,093
<b>Total Revenues</b>	<b>842,654</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	47,377
Administrative travel	3,418
Utilities	13,091
Insurance	3,473
Industrial development	2,500
Office expense	4,410
Advertising and printing	2,426
Professional fees	10,969
Repairs and maintenance	9,616
Supplies	7,864
Miscellaneous	1,719
Streets and maintenance	106,037
Police department	366,594
Fire department	75,545
Capital outlay	184,955
<b>Total Expenditures</b>	<b>839,994</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,660</b>
<b><u>Other Financing Sources</u></b>	
Proceeds from sale of fixed assets	7,090
Insurance recoveries - impaired assets	1,486
<b>Total Other Financing Sources</b>	<b>8,576</b>
<b>Net Changes in Fund Balance</b>	11,236
<b>Fund Balance - Beginning of Year</b>	1,024,088
<b>Fund Balance - End of Year</b>	<b>\$ 1,035,324</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, 2012**

**Net Changes in Fund Balance - Governmental Fund** \$ 11,236

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. (29,353)

The difference in grant and other revenue is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds. 34,607

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. (3,430)

**Changes in Net Assets of Governmental Activities** \$ 13,060

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2012**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 810,925	\$ 263,690	\$ 315,302	\$ 1,389,917
Receivables, net:				
Accounts - trade	245,204	32,559	29,229	306,992
Miscellaneous	47	986	986	2,019
Intergovernmental	10,015	-	-	10,015
Prepaid expenses	11,648	1,893	1,692	15,233
<b>Total Current Assets</b>	<b>1,077,839</b>	<b>299,128</b>	<b>347,209</b>	<b>1,724,176</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,196,827	57,180	-	1,254,007
Investments	189,717	25,534	-	215,251
Capital assets:				
Land and construction in process	5,391,515	138,161	-	5,529,676
Other capital assets, net of depreciation	24,985,244	2,851,925	120,516	27,957,685
Unamortized financing costs	53,075	21,238	-	74,313
<b>Total Noncurrent Assets</b>	<b>31,816,378</b>	<b>3,094,038</b>	<b>120,516</b>	<b>35,030,932</b>
<b>Total Assets</b>	<b>\$ 32,894,217</b>	<b>\$ 3,393,166</b>	<b>\$ 467,725</b>	<b>\$ 36,755,108</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 18,587	\$ 5,755	\$ 4,124	\$ 28,466
Due on construction contracts	652,809	12,500	-	665,309
Accrued expenses	9,828	338	402	10,568
Interest payable	67,740	10,635	-	78,375
Accrued vacation and payroll	10,173	1,274	1,489	12,936
Deferred revenue	28,600	-	-	28,600
Bonds and loans payable	659,659	60,789	10,639	731,087
<b>Total Current Liabilities</b>	<b>1,447,396</b>	<b>91,291</b>	<b>16,654</b>	<b>1,555,341</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	226,930	-	-	226,930
Due on water line construction	25,369	-	-	25,369
Loans payable	7,299,827	773,476	39,565	8,112,868
Revenue bonds payable	12,339,100	603,000	-	12,942,100
Deferred gain on refinancing	19,593	-	-	19,593
Unamortized bond premium	436	-	-	436
<b>Total Noncurrent Liabilities</b>	<b>19,911,255</b>	<b>1,376,476</b>	<b>39,565</b>	<b>21,327,296</b>
<b>Total Liabilities</b>	<b>21,358,651</b>	<b>1,467,767</b>	<b>56,219</b>	<b>22,882,637</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	4,719,704	1,423,398	70,312	6,213,414
Restricted for capital and debt service	1,159,614	82,714	-	1,242,328
Unrestricted	5,656,248	419,287	341,194	6,416,729
<b>Total Net Assets</b>	<b>11,535,566</b>	<b>1,925,399</b>	<b>411,506</b>	<b>13,872,471</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 32,894,217</b>	<b>\$ 3,393,166</b>	<b>\$ 467,725</b>	<b>\$ 36,755,108</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Enterprise Funds			Totals
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<b>Operating Revenues</b>				
Charges for services	\$ 2,398,563	\$ 332,347	\$ 343,014	\$ 3,073,924
Penalty charges	27,736	3,859	3,165	34,760
Connection fees	170,223	1,400	-	171,623
<b>Total Operating Revenues</b>	<b>2,596,522</b>	<b>337,606</b>	<b>346,179</b>	<b>3,280,307</b>
<b>Operating Expenses</b>				
Salaries and benefits	233,705	33,844	38,754	306,303
Maintenance and supplies	177,407	42,615	25,661	245,683
Chemicals	67,740	-	-	67,740
Contract operations	979,604	133,687	159,810	1,273,101
Professional fees	6,290	2,174	1,026	9,490
Office and advertising	23,483	7,675	7,558	38,716
Landfill fees	-	-	77,376	77,376
Amortization	4,118	1,416	-	5,534
Depreciation	784,762	129,857	9,402	924,021
Rental expense	5,400	3,300	4,800	13,500
Insurance	34,485	8,608	2,822	45,915
Miscellaneous	9	-	72	81
<b>Total Operating Expenses</b>	<b>2,317,003</b>	<b>363,176</b>	<b>327,281</b>	<b>3,007,460</b>
<b>Operating Income (Loss)</b>	<b>279,519</b>	<b>(25,570)</b>	<b>18,898</b>	<b>272,847</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	26,575	971	969	28,515
Rental income	31,200	-	-	31,200
Other income	146	-	1,453	1,599
Gain (loss) on disposal of fixed assets	(837)	-	605	(232)
Intergovernmental grants	106,149	118,091	-	224,240
Debt service repayments	26,577	-	-	26,577
Insurance recoveries - impaired assets	12,312	306	306	12,924
Gain on refinancing	3,919	-	-	3,919
Interest expense	(533,359)	(30,582)	(1,682)	(565,623)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(327,318)</b>	<b>88,786</b>	<b>1,651</b>	<b>(236,881)</b>
<b>Changes in Net Assets</b>	<b>(47,799)</b>	<b>63,216</b>	<b>20,549</b>	<b>35,966</b>
<b>Total Net Assets - Beginning of Year</b>	<b>11,583,365</b>	<b>1,862,183</b>	<b>390,957</b>	<b>13,836,505</b>
<b>Total Net Assets - End of Year</b>	<b>\$ 11,535,566</b>	<b>\$ 1,925,399</b>	<b>\$ 411,506</b>	<b>\$ 13,872,471</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, 2012**

	<b>Enterprise Funds</b>			<b>Totals</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	\$ 2,610,418	\$ 336,030	\$ 345,758	\$ 3,292,206
Cash payments to suppliers for goods and services	(1,286,421)	(211,311)	(280,880)	(1,778,612)
Cash payments to employees for services	(228,926)	(33,297)	(38,141)	(300,364)
<b>Net Cash Provided by Operating Activities</b>	<b>1,095,071</b>	<b>91,422</b>	<b>26,737</b>	<b>1,213,230</b>
<b><u>Cash Flows from Noncapital and Related Financing Activities:</u></b>				
Due from/to other funds	-	(4,700)	4,700	-
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(4,033,289)	(953,691)	(3,498)	(4,990,478)
Proceeds from sale of capital assets	-	-	605	605
Intergovernmental grants	96,134	118,091	-	214,225
Insurance recoveries	12,312	306	306	12,924
Payment on water line construction	(470)	-	-	(470)
Proceeds from debt	5,724,373	810,265	-	6,534,638
Principal paid on debt	(2,529,394)	(22,000)	(10,357)	(2,561,751)
Interest paid on debt	(528,957)	(30,857)	(1,682)	(561,496)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,259,291)</b>	<b>(77,886)</b>	<b>(14,626)</b>	<b>(1,351,803)</b>
<b><u>Cash Flows from Investing Activities:</u></b>				
Interest income	26,357	902	901	28,160
Other non-operating income and expenses	57,923	-	1,453	59,376
<b>Net Cash Provided by Investing Activities</b>	<b>84,280</b>	<b>902</b>	<b>2,354</b>	<b>87,536</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(79,940)</b>	<b>9,738</b>	<b>19,165</b>	<b>(51,037)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,277,409</b>	<b>336,666</b>	<b>296,137</b>	<b>2,910,212</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,197,469</b>	<b>\$ 346,404</b>	<b>\$ 315,302</b>	<b>\$ 2,859,175</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating income (loss)	\$ 279,519	\$ (25,570)	\$ 18,898	\$ 272,847
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	784,762	129,857	9,402	924,021
Amortization	4,118	1,416	-	5,534
Change in assets and liabilities:				
Receivables, net	41	(1,576)	(421)	(1,956)
Prepaid expenses	1,839	277	207	2,323
Accounts payable	3,020	(13,867)	(2,364)	(13,211)
Accrued expenses	3,138	338	402	3,878
Other liabilities	18,634	547	613	19,794
<b>Total Adjustments</b>	<b>815,552</b>	<b>116,992</b>	<b>7,839</b>	<b>940,383</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,095,071</b>	<b>\$ 91,422</b>	<b>\$ 26,737</b>	<b>\$ 1,213,230</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, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**

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

**Basis of Presentation**

**Government-Wide Financial Statements** - The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The governmental activities reported in the statements are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed mostly by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for 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, 2012**

**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 Fund - This fund accounts for the operation, maintenance, and development of the water plant and various water distribution lines.
- Wastewater Treatment Fund - This fund accounts for the operation, maintenance, and development of the sewage treatment plant and various 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.

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

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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 their fair market values as of the date received. 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 chose not to retroactively report infrastructure in accordance with implementation of GASB 34. 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 (\$61,528 for the fiscal year) as part of the cost of the asset in the proprietary fund. 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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted assets are those assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**Accounts Receivable**

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible trade receivables was \$20,692 at June 30, 2012. See Note C for the allowance for estimated uncollectible property taxes.

**Prepaid Expenses**

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

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

Investments

Investments consist of state and local government securities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

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

Fund Balance

The City follows GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*", which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- 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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

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

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

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

**NOTE C - PROPERTY TAXES**

The City's property taxes are levied before the first day of November on the assessed values as of January 1 for all real and personal property located in the city, including vehicles. Property taxes are due December 31 and become delinquent January 1 of the following year. The City's real and personal property tax rate is \$.30 per \$100 valuation, of which \$.27 is for general fund purposes and \$.03 is for fire department purposes. The City's vehicle tax rate is \$.28 per \$100 of assessed value. The City is permitted by the Kentucky Constitution to levy taxes up to \$.75 per \$100 of assessed value, as its population is less than 10,000. The City is well within the maximum tax rate it is allowed to levy.

Delinquent property taxes are stated net of an allowance for estimated uncollectible taxes equal to the delinquent taxes over one year old; therefore, these amounts have not been recorded as revenue. At June 30, 2012, the gross amount of delinquent taxes due was \$13,456, and the allowance for uncollectible taxes was \$11,094. Delinquent taxes over ten years old are not included in the receivable or allowance.

**NOTE D - CASH AND INVESTMENTS**

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2012, the reported amount of the City's cash and cash equivalents was \$3,659,325 and the bank balance was \$3,706,055. 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, deposits of the City were either insured or collateralized with securities held by the pledging financial institution on behalf of the City. 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.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE D - CASH AND INVESTMENTS (CONCLUDED)**

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, \$84,279 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 \$130,972 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$215,251 at year-end, and the balance is subject to investment risks, including possible loss of principal.

Restricted Cash

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

**NOTE E - RECONCILIATION OF CASH**

For purposes of the Statement of Cash Flows on page 10, cash and cash equivalents as of June 30, 2012 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 810,925	\$263,690	\$315,302	\$1,389,917
Restricted cash	1,196,827	57,180	-	1,254,007
Investments	189,717	25,534	-	215,251
<b>Total</b>	<b>\$2,197,469</b>	<b>\$346,404</b>	<b>\$315,302</b>	<b>\$2,859,175</b>

**NOTE F - BONDS PAYABLE**

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

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

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

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

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE F - BONDS PAYABLE (CONCLUDED)**

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

In October 2009, the City issued an additional \$1,350,000 of water and sewer revenue bonds to aid in the cost of the construction of additions to the existing water system. The thirty-eight year bonds have a 3.625% interest rate.

In November 2011, the City issued \$2,000,000 of water and sewer revenue bonds to help finance the cost of additional water lines. The thirty-eight year bonds have a 3.0% interest rate.

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

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

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

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

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

During the fiscal year ended June 30, 2012, the required deposits were made to the various funds as outlined above.

**NOTE G - LOANS PAYABLE**

In accordance with an agreement dated April 1, 1989 by the Kentucky Infrastructure Authority (KIA) and the City of Hardinsburg, \$449,000 of debt payable to Rural Development (RD) relating to the Garfield/Irvington water line extension was paid under the RD Loan Acquisition Program. On July 29, 2004, the remaining balance of \$358,742 was refinanced using \$57,799 in a reserve account supplemented with a deferred gain from other pooled reserves of \$50,943 to reduce the new liability to \$250,000. The City makes monthly payments to a Sinking Fund, which will accumulate until sufficient to retire the remaining principal of the debt at that time. At June 30, 2012, the balance in the Sinking Fund was \$84,279 and the loan balance payable to KIA was \$250,000.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE G - LOANS PAYABLE (CONCLUDED)**

During the year ended June 30, 1999, the City of Hardinsburg entered into a loan agreement with KIA. Proceeds of this loan were used to provide utility services to the Breckinridge County Detention Center. The original amount of the loan was \$131,231 with an interest rate of 1.2%. Payments of \$3,700, which include principal and interest, are required each June 1 and December 1 through the fiscal year 2019. As outlined in the terms of the agreement, the City has met the required balance of \$6,562 in the replacement and maintenance reserve account. Breckinridge County reimbursed the City \$9,573 for the year to service this debt.

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

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

In 2008, the City finalized a funding agreement with KIA in the amount of \$4.4 million to aid in financing the cost of the new water plant. The capitalization grant for Drinking Water State Revolving Funds was awarded by the Environmental Protection Agency (EPA), and KIA matched approximately 20%. The agreement requires the loan to be repaid in forty semi-annual payments of \$121,672, which include interest at 1%, and ten annual transfers of \$75,000 to the replacement and maintenance reserve account.

During the year ended June 30, 2010, the City finalized a funding agreement with KIA in the amount of \$1,999,250 to help finance the cost of additional water lines. The loan consisted of 78% Drinking Water State Revolving Funds (DWSRF) awarded by the EPA. 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.

In the prior fiscal year, the City secured a \$3.25 million loan from KIA for a major water line expansion project. At year-end, the City had received \$1,786,526 in loan proceeds, which included \$472,333 in federal DWSRF. Once the 1% loan is finalized, it will be amortized over twenty years.

During the year ended June 30, 2012, the City obtained funding from KIA for two sewer projects. The first loan was used to fund a sewer rehab project within the City. At year-end, the City had received \$534,720 in loan proceeds, which included \$342,741 in Clean Water State Revolving Funds (CWSRF) awarded by the EPA.

The second loan was used to provide sewer services to a trailer park within the City. At year-end, the City had received \$393,636 in loan proceeds, which included \$164,063 in CWSRF. This loan calls for 30% principal forgiveness. Accordingly, \$118,091 was recorded as an intergovernmental grant, which left a principal balance of \$275,545. Once both of the 1% loans are finalized, they will be amortized over twenty years.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE H - SHORT-TERM DEBT**

The City obtained interim financing from the Kentucky Rural Water Finance Corporation to provide construction funding for the McQuady Phase III water line expansion. The 2.5% loan was paid out in November 2011 after permanent financing was provided by a \$2,000,000 RD bond issue.

	<b>Business-Type Activities</b>			
	Balance			Balance
	July 1, 2011	Additions	Reductions	June 30, 2012
Interim financing	\$ 14,062	\$1,937,847	\$1,951,909	\$ -

**NOTE I - DEBT MATURITIES**

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2012, including interest payments are as follows:

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2013	\$ 309,900	\$ 515,536	\$ 421,187	\$ 99,541
2014	322,200	504,170	466,465	93,328
2015	336,000	492,054	471,547	88,246
2016	349,300	479,225	476,688	83,104
2017	364,700	465,694	475,929	77,902
2018 - 2022	1,749,900	2,125,046	2,652,910	248,616
2023 - 2027	2,140,700	1,736,427	2,377,069	125,194
2028 - 2032	1,704,200	1,340,078	1,143,114	28,077
2033 - 2037	1,800,400	995,250	49,146	246
2038 - 2042	2,056,500	622,180	-	-
2043 - 2047	1,802,800	210,402	-	-
2048 - 2050	315,400	17,466	-	-
Totals	\$13,252,000	\$9,503,528	\$8,534,055	\$844,254

**NOTE J - CHANGES IN NONCURRENT LIABILITIES**

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2012 were as follows:

	<b>Business-Type Activities</b>					
	Balance				Balance	Due In
	July 1, 2011	Additions	Reductions	June 30, 2012	One Year	
Customer deposits	\$ 213,075	\$ 81,575	\$ 67,720	\$ 226,930	\$ -	
Due on water line	25,839	-	470	25,369	-	
Loans payable	6,277,406	2,596,791	340,142	8,534,055	421,187	
Bonds payable	11,521,700	2,000,000	269,700	13,252,000	309,900	
Deferred gain on refinancing	23,512	-	3,919	19,593	3,919	
Unamortized bond premium	509	-	73	436	72	
	\$18,062,041	\$4,678,366	\$682,024	\$22,058,383	\$735,078	

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE K - PENSION PLANS**

County Employees Retirement System

Plan Description - The City staff participates in the County Employees Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing, multiple-employer, public employee retirement system that covers substantially all regular full-time employees of each county, non-certified school board employees, and any additional eligible local agencies electing to participate in the System.

The Kentucky Retirement System (KRS) issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or by visiting the website at [www.kyret.ky.gov](http://www.kyret.ky.gov).

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2012, non-hazardous and hazardous plan participating employees who began participating with KRS prior to September 1, 2008 contributed 5% and 8%, respectively, of creditable compensation to CERS. Non-hazardous and hazardous employees who began participating with KRS on or after September 1, 2008 contributed 6% and 9%, respectively, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. For the year ended June 30, 2012, participating employers contributed 18.96% and 35.76% of members' compensation for non-hazardous and hazardous gross pay, respectively. The City's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2012	\$399,638	\$25,230	\$97,746	\$122,976
2011	\$389,283	\$25,455	\$92,306	\$117,761
2010	\$372,473	\$25,037	\$92,669	\$117,706

Benefits under the plan will vary based on final compensation, years of service, and other factors as fully described in the plan documents. Retired employees covered under the plan receive some health care benefits depending on their length of service and date of employment. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS. The employer contribution rate for 2012-2013 is 19.55% non-hazardous and 37.6% hazardous.

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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

To be eligible for medical benefits, the member must have retired either for service or disability. The amount funded by the insurance fund depends on the months of service. The insurance fund shall continue the same level of coverage for a recipient who was a member of the CERS after the age of 65 as before the age of 65, if the recipient is not eligible for Medicare coverage. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

Funding policy - The post-retirement healthcare provided by CERS is financed wholly or partly from funds contributed by the recipient of a retirement allowance, by the Kentucky Retirement Systems insurance fund, or by another state-administered retirement system under a reciprocal agreement. Also, any premiums collected from retirees and investment interest help with the medical expenses of the plan.

Retired employees covered under the plan receive some health care benefits depending on their length of service and date of employment. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

The City also participates in the Kentucky Public Employees 401(k) Deferred Compensation (Plan II). Participation in the plan is voluntary and contributions are withheld from participating employees' wages. Employee contributions were \$1,200 for the fiscal year. No contributions were made by the City.

**NOTE L - DEFERRED REVENUE**

In April 2008, the City entered into a lease agreement with Bluegrass Cellular whereby the City agreed to lease two towers for five years. The annual sum of \$31,200 was made in advance for the term June 2012 to May 2013. Accordingly, \$28,600 is reported as deferred revenue on the Statement of Net Assets.

**NOTE M - LEASED EQUIPMENT**

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

	<u>Cost</u>	<u>Accumulated Amortization</u>
Buildings and improvements	\$ 12,016	\$ 12,016
Equipment and vehicles	\$349,955	\$349,955

This information was available only for assets acquired since November 1994. Any assets acquired by lease prior to that time have not been segregated from assets acquired by other means. Depreciation expense includes \$3,477 in amortization expense for assets purchased under capital leases.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE N - CAPITAL ASSETS**

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

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b><u>Governmental Activities</u></b>				
Not Depreciated:				
Land	\$ 241,645	\$ -	\$ -	\$ 241,645
Depreciated:				
Buildings and improvements	647,811	6,860	-	654,671
Furniture and fixtures	61,490	117	-	61,607
Equipment	421,850	18,749	-	440,599
Vehicles	772,653	53,073	(14,234)	811,492
Parks	101,059	42,540	-	143,599
Infrastructure	818,118	81,223	-	899,341
Subtotal	<u>2,822,981</u>	<u>202,562</u>	<u>(14,234)</u>	<u>3,011,309</u>
Accumulated Depreciation	<u>1,426,394</u>	<u>214,308</u>	<u>(14,234)</u>	<u>1,626,468</u>
Net Capital Assets	<u>\$ 1,638,232</u>	<u>\$ (11,746)</u>	<u>\$ -</u>	<u>\$ 1,626,486</u>
<b><u>Business-Type Activities</u></b>				
Not Depreciated:				
Land	\$ 265,161	\$ -	\$ -	\$ 265,161
Construction in process	2,041,941	4,283,788	(1,061,214)	5,264,515
Subtotal	<u>2,307,102</u>	<u>4,283,788</u>	<u>(1,061,214)</u>	<u>5,529,676</u>
Depreciated:				
Buildings and improvements	304,083	-	-	304,083
Equipment	643,360	7,426	(16,834)	633,952
Vehicles	155,968	16,785	-	172,753
Treatment plants	15,114,519	9,225	-	15,123,744
Distribution system	14,819,772	110,739	(1,860)	14,928,651
Waste water plant	3,828,441	1,088,177	-	4,916,618
Subtotal	<u>34,866,143</u>	<u>1,232,352</u>	<u>(18,694)</u>	<u>36,079,801</u>
Accumulated Depreciation	<u>7,215,952</u>	<u>924,021</u>	<u>(17,857)</u>	<u>8,122,116</u>
Net Capital Assets	<u>\$29,957,293</u>	<u>\$4,592,119</u>	<u>\$(1,062,051)</u>	<u>\$33,487,361</u>

Depreciation expense and related accumulated depreciation are detailed as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b><u>Governmental Activities</u></b>				
Buildings and improvements	\$ 258,098	\$ 23,325	\$ -	\$ 281,423
Furniture and fixtures	45,951	4,842	-	50,793
Equipment	280,113	35,413	-	315,526
Vehicles	440,716	71,413	(14,234)	497,895
Parks	49,653	5,052	-	54,705
Infrastructure	351,863	74,263	-	426,126
Total	<u>\$ 1,426,394</u>	<u>\$ 214,308</u>	<u>\$ (14,234)</u>	<u>\$ 1,626,468</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

<b>Business-Type Activities</b>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Buildings and improvements	\$ 104,387	\$ 9,948	\$ -	\$ 114,335
Equipment	473,418	17,264	(16,834)	473,848
Vehicles	134,786	10,471	-	145,257
Treatment plants	1,534,394	382,299	-	1,916,693
Distribution system	3,002,936	377,094	(1,023)	3,379,007
Waste water plant	1,966,031	126,945	-	2,092,976
Total	<u>\$7,215,952</u>	<u>\$ 924,021</u>	<u>\$ (17,857)</u>	<u>\$8,122,116</u>

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

<b>Governmental Activities</b>	
General government	\$ 95,593
Streets and maintenance	4,362
Police department	20,179
Fire department	94,174
	<u>\$214,308</u>

**NOTE O - COMMITMENTS AND CONTINGENCIES**

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

The City, Professional Services Group, Inc. (PSG), and Veolia Water North America – South, LLC (Veolia) entered into an agreement to employ the services of PSG through June 30, 2020 for the management of the water plant, water distribution system, wastewater plant, wastewater collection system, street network, and garbage collection service. The annual fee for the current fiscal year was \$1,460,903, which included an annual repair and maintenance allowance of \$152,250. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2012-2013 is \$1,517,144, which includes an estimated repair and maintenance allowance of \$157,579.

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 was awarded a \$2 million RD loan, \$784,000 RD grant, and \$3,251,590 Drinking Water State Revolving Fund (DWSRF) loan for additional water line extensions to McQuady, also known as the McQuady III/Area 259 project. The City also used \$253,000 in connection fees and \$333,455 of RD grant contingency money from a prior project. Construction in process includes \$5,149,983 in costs incurred to date on this project, which has been budgeted for \$6.62 million. Contract commitments remaining at year-end totaled \$1,122,555.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

The City has experienced some difficulties with one of the contractors used for the McQuady III project. The contractor exceeded the contract time limit, and damages are currently being liquidated at a rate of \$500 per day; however, it has not yet been determined whether the City will withhold these damages from the contractor's pay. The City has increased the amount of retainage being held due to the contractor's inability to pay some of its vendors and unsatisfactory work. The City does not expect to incur any additional liabilities, as it believes the contractor's bonding company will be responsible for any vendors left unpaid by the contractor.

In August 2010, the City was awarded a \$17,000 federal grant to be used for a walking trail at the new city park. The City completed the work on the trail prior to year-end, and a receivable for the grant was recorded in the Statement of Net Assets for governmental activities.

In February 2011, the City secured a \$4,000,000 DWSRF loan with 1% interest and \$1,600,000 in principal forgiveness for additional water lines. The City accepted bids for this project subsequent to year-end (see Note Q) and has incurred preliminary costs of \$114,532 to date. The City will consider using the contingency funds from this loan for additional water projects.

**NOTE P - WATER CONTRACTS**

The City has a contract with the City of Irvington, Kentucky (Irvington), whereby Irvington pays Hardinsburg for water usage at a rate that is adjustable annually based on the costs of operating the water plant. Irvington currently pays \$2.35 per thousand gallons of consumption, subject to a minimum of 3 million gallons per month, and approximately \$1,417 per month to fund its portion of the construction debt service. For the year ended June 30, 2012, the City collected \$127,708 in water revenue and \$17,004 for the construction debt service 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. For the year ended June 30, 2012, the City billed Cloverport \$99,932 for water.

**NOTE Q - SUBSEQUENT EVENTS**

Subsequent to year-end, the City was awarded FEMA funds to be used towards the purchase of generators. The City obtained a bid of \$51,887 for a generator for the Fire Department, and it is awaiting final approval from FEMA for a generator for City Hall expected to cost \$57,324.

In August 2012, the City accepted a bid of \$143,547 for a new garbage truck, which will be financed through a lease.

In September 2012, the City awarded contracts for water line extensions that will be funded by the \$4 million DWSRF loan (see Note O) and tap fees. Contracts including change orders for this project totaled \$3.375 million.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE R - COMMITMENTS UNDER LEASES**

The City incurred \$2,567 in lease expense for the fiscal year for an operating lease for office equipment. Commitments under this operating lease agreement provide the minimum future rental payments as of June 30, 2012 as follows:

Year Ending June 30,	Future Payments
2013	\$2,567
2014	2,567
2015	2,567
2016	1,711
Total	<u>\$9,412</u>

**NOTE S - NEW ACCOUNTING STANDARDS**

During the fiscal year, the City implemented the following Governmental Accounting Standards Board (GASB) statement:

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53" - The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. There was no current effect on the financial statements as a result of implementing this statement.

**NOTE T - FUND BALANCE**

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 493
Restricted:	
Road aid	25,595
Drug enforcement	3,654
Total Restricted	<u>29,249</u>
Assigned:	
Industrial development	103,002
Fire department	5,333
Total Assigned	<u>108,335</u>
Unassigned	<u>897,247</u>
Total Fund Balance	<u>\$1,035,324</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 375,135	\$ 391,498	\$ 392,371	\$ 873
Insurance premium taxes	223,500	216,900	205,459	(11,441)
Business licenses	12,000	12,588	12,663	75
Auto licenses and stickers	26,000	22,959	23,039	80
Building permits	950	1,280	1,255	(25)
Rental income	15,575	15,785	15,885	100
Interest income	5,195	4,563	4,749	186
Miscellaneous	9,665	16,543	16,955	412
Donations	-	7,100	7,100	-
Franchise fees	33,229	34,810	34,958	148
Fire department subscription fees	12,000	31,719	32,127	408
Intergovernmental revenues	111,015	93,790	96,093	2,303
<b>Total Revenues</b>	<u>824,264</u>	<u>849,535</u>	<u>842,654</u>	<u>(6,881)</u>
<b><u>Expenditures</u></b>				
Current:				
General government	118,461	110,802	106,863	3,939
Police department	398,931	368,592	366,594	1,998
Fire department	69,450	81,787	75,545	6,242
Streets and maintenance	117,987	108,391	106,037	2,354
Capital outlay	247,000	203,931	184,955	18,976
<b>Total Expenditures</b>	<u>951,829</u>	<u>873,503</u>	<u>839,994</u>	<u>33,509</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(127,565)</u>	<u>(23,968)</u>	<u>2,660</u>	<u>26,628</u>
<b><u>Other Financing Sources</u></b>				
Proceeds from sale of fixed assets	-	7,090	7,090	-
Insurance recoveries	-	1,486	1,486	-
<b>Total Other Financing Sources</b>	<u>-</u>	<u>8,576</u>	<u>8,576</u>	<u>-</u>
<b>Net Changes in Fund Balance</b>	(127,565)	(15,392)	11,236	26,628
<b>Fund Balance - Beginning of Year</b>	<u>611,465</u>	<u>596,208</u>	<u>1,041,299</u>	<u>445,091</u>
<b>Fund Balance - End of Year</b>	<u>\$ 483,900</u>	<u>\$ 580,816</u>	<u>\$ 1,052,535</u>	<u>\$ 471,719</u>

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - BUDGET**

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

The actual results of operations are presented in accordance with GAAP. All governmental fund budgets are maintained on the cash basis (budgetary basis) of accounting, which is a comprehensive basis of accounting other than GAAP. The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. No adjustments have been made to convert the actual data presented on the GAAP basis to the cash basis of accounting because any differences were deemed to be immaterial.

**INDEPENDENT AUDITORS' REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704  
FAX (270) 756-5927

## 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 AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 12-1 and 12-2 to be material weaknesses.

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated February 19, 2013.

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

This report is intended solely for the information and use of management, the city council, regulatory agencies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 19, 2013

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



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### INDEPENDENT AUDITORS' REPORT

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

#### Compliance

We have audited the City of Hardinsburg, Kentucky's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the city council, regulatory agencies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 19, 2013



**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Federal Agency/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>Department of Agriculture</u></b>		
Direct Program:		
Water and Waste Program Cluster:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 898,829
Total Water and Waste Program Cluster		<u>898,829</u>
Total Department of Agriculture		<u>898,829</u>
<b><u>Department of Transportation</u></b>		
Passed through Kentucky Department for Local Government:		
Highway Planning and Construction Cluster:		
Recreational Trails Program	20.219	17,000
Total Highway Planning and Construction Cluster		<u>17,000</u>
Total Department of Transportation		<u>17,000</u>
<b><u>Environmental Protection Agency</u></b>		
Passed through Kentucky Infrastructure Authority:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	440,844
Capitalization Grants for Drinking Water State Revolving Funds	66.468	567,274
Total Environmental Protection Agency		<u>1,008,118</u>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 1,923,947</u></b>

The accompanying notes are an integral part of this schedule.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of the City of Hardinsburg, Kentucky under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. As the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net assets of the City.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*.

**NOTE C - LOANS**

Balances and transactions relating to federal loan programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the schedule. Funds received as loans from the Environmental Protection Agency are commingled with state funds; however, only the federal portions are reported as expenditures in the schedule. Outstanding loan balances at year-end were as follows:

<u>CFDA #</u>	<u>Program Title</u>	<u>Balance June 30, 2012</u>
10.760	Water and Waste Disposal Systems for Rural Communities	\$2,000,000
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 810,265
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$1,786,526

**CITY OF HARDINBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Section I: Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
•Water and Waste Program Cluster:	
Water and Waste Disposal Systems for Rural Communities	10.760
•Capitalization Grants for Clean Water State Revolving Funds	66.458

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

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

**Section II: Financial Statement Findings**

Findings 12-1 and 12-2.

**Section III: Federal Awards Findings**

None.

**CITY OF HARDINBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Finding: 12-1 (Repeat)**

<i>Condition:</i>	Material adjustments were required as part of the audit process.
<i>Criteria:</i>	A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Cause:</i>	Auditing standards have placed a greater expectation on government entities to make all material adjustments itself. Although City staff made numerous adjustments and obtained outside help to correct its books prior to the audit, material adjustments were still required as a result of the audit.
<i>Effect:</i>	Assets, liabilities, revenues, and expenditures were overstated or understated.
<i>Recommendation:</i>	Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all known adjustments have been made.
<i>Management Response:</i>	<i>Due to the cost of training staff or hiring personnel already trained in complex accounting pronouncements, management has chosen to accept the risks associated with this material weakness.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Finding: 12-2 (Repeat)**

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

**MANAGEMENT LETTER**



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704  
FAX (270) 756-5927

## 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, 2012, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal control and operating efficiency. The paragraphs below summarize our comments and suggestions regarding the matters. A separate report dated February 19, 2013, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated February 19, 2013, on the basic financial statements of the City of Hardinsburg.

### *PRIOR YEAR*

As in prior years, we noted minor issues during the testing of 75 transactions. While most invoices are marked paid, we noted eight instances where the invoice was not cancelled. The City attaches the check stub to each invoice as evidence of its having been paid; however internal controls are strengthened when invoices are cancelled to avoid duplicate payment. Accordingly, we recommend the City continue its efforts to cancel all paid invoices. We also noted three invoices lacking a signature to note evidence of receipt of goods or services. We continue to recommend that the person having firsthand knowledge of the materials having been received or the services performed sign and date the invoice or packing slip.

As recommended in the prior year, PSG now bills the City monthly for the actual repairs and maintenance charges. This has helped improve the City's cash flow and allowed for a more accurate allocation of expenses to each fund.

In the prior year, we noted several problems with the records for accrued vacation and sick leave. As recommended, the City increased its efforts to improve its system for tracking vacation and sick leave. Although the records originally provided were incomplete, corrected records were provided during the audit, and only one error was noted. Accordingly, we recommend that the City continue its effort to ensure the manual accrued time records are accurate.

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

In the prior year, we emphasized that the City may need to more effectively monitor its financial situation due to the financial pressures placed on governmental entities. As recommended, the City reduced the amount of overtime paid to employees. As the City continues to undertake major construction projects, there is a substantial rising cost for the operations and maintenance of the water plant and water distribution system. We continue to recommend that the City meet with Veolia to review opportunities to cut costs. Due to the substantial increase in interest expense, we also suggested that the City explore refinancing older debt at a lower interest rate. The City is in the process of implementing this suggestion.

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

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 19, 2013