

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2020
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2020, 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, 2020, 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, 2020, 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 40 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 January 12, 2021 on our consideration of City of Hardinsburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hardinsburg, Kentucky's internal control over financial reporting and compliance.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

January 12, 2021

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 1,672,486	\$ 619,229	\$ 2,291,715
Investments	-	469,770	469,770
Receivables, net:			
Accounts - trade	-	429,463	429,463
Franchise fees	4,202	-	4,202
Miscellaneous	8,649	7,251	15,900
Taxes	86,502	-	86,502
Intergovernmental	7,635	-	7,635
Internal balances	100,000	(100,000)	-
Prepaid expenses	8,335	5,626	13,961
Total Current Assets	1,887,809	1,431,339	3,319,148
Noncurrent Assets			
Restricted cash	-	1,846,384	1,846,384
Capital assets:			
Land and construction in process	295,145	275,161	570,306
Other capital assets, net of depreciation	1,911,691	35,085,248	36,996,939
Total Noncurrent Assets	2,206,836	37,206,793	39,413,629
Total Assets	4,094,645	38,638,132	42,732,777
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	-	10,223	10,223
Deferred amounts related to pensions	410,520	126,822	537,342
Deferred amounts related to OPEB	178,870	57,397	236,267
Total Deferred Outflows of Resources	589,390	194,442	783,832
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	3,923	37,275	41,198
Due on construction contracts	-	128,647	128,647
Accrued expenses	60	25,059	25,119
Interest payable	-	124,754	124,754
Accrued vacation and payroll	24,660	14,956	39,616
Due to employees	11,576	-	11,576
Unearned revenue	8,582	45,889	54,471
Bonds and loans payable	-	1,313,137	1,313,137
Total Current Liabilities	48,801	1,689,717	1,738,518
Noncurrent Liabilities			
Customer deposits payable	-	287,335	287,335
Due to Greenshore customers	-	23,500	23,500
Loans payable	-	8,957,059	8,957,059
Revenue bonds payable	-	10,699,706	10,699,706
Net pension liability	1,211,496	567,366	1,778,862
Net OPEB liability	320,831	135,645	456,476
Total Noncurrent Liabilities	1,532,327	20,670,611	22,202,938
Total Liabilities	1,581,128	22,360,328	23,941,456
<u>Deferred Inflows of Resources</u>			
Deferred amounts related to pensions	38,194	103,272	141,466
Deferred amounts related to OPEB	89,845	83,458	173,303
Total Deferred Inflows of Resources	128,039	186,730	314,769
<u>Net Position</u>			
Net investment in capital assets	2,206,836	14,377,230	16,584,066
Restricted	18,822	2,028,819	2,047,641
Unrestricted	749,210	(120,533)	628,677
Total Net Position	\$ 2,974,868	\$ 16,285,516	\$ 19,260,384

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
General government	\$ 267,121	\$ -	\$ 4,649	\$ -	\$ (262,472)	\$ -	\$ (262,472)
Streets and maintenance	140,008	-	-	44,482	(95,526)	-	(95,526)
Police department	615,255	2,184	35,128	-	(577,943)	-	(577,943)
Fire department	220,251	82,535	12,225	-	(125,491)	-	(125,491)
Total Governmental Activities	1,242,635	84,719	52,002	44,482	(1,061,432)	-	(1,061,432)
<u>Business-Type Activities</u>							
Water	3,952,769	3,799,777	-	45,220	-	(107,772)	(107,772)
Sewer	663,742	515,935	-	-	-	(147,807)	(147,807)
Sanitation	437,279	359,419	-	-	-	(77,860)	(77,860)
Total Business-Type Activities	5,053,790	4,675,131	-	45,220	-	(333,439)	(333,439)
Total Primary Government	\$ 6,296,425	\$ 4,759,850	\$ 52,002	\$ 89,702	\$ (1,061,432)	\$ (333,439)	\$ (1,394,871)
<u>General Revenues</u>							
Property taxes					\$ 556,804	\$ -	\$ 556,804
Insurance premium taxes					332,959	-	332,959
Franchise fees					43,980	-	43,980
Licenses and permits					35,603	-	35,603
Interest income					4,675	36,829	41,504
Miscellaneous					45,722	52,779	98,501
Disposal of fixed assets					2,001	761	2,762
Total					1,021,744	90,369	1,112,113
Changes in Net Position					(39,688)	(243,070)	(282,758)
Net Position - Beginning of Year					3,014,556	16,528,586	19,543,142
Net Position - End of Year					\$ 2,974,868	\$ 16,285,516	\$ 19,260,384

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2020**

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 1,672,486
Receivables, net:	
Franchise fees	4,202
Miscellaneous	8,649
Taxes	86,502
Intergovernmental	7,635
Prepaid expenses	8,335
Due from other funds	100,000
Total Assets	\$ 1,887,809
<u>Liabilities</u>	
Accounts payable	\$ 3,923
Accrued expenses	60
Accrued payroll	8,071
Due to employees	11,576
Unearned revenue	8,582
Total Liabilities	32,212
<u>Fund Balance</u>	
Nonspendable	8,335
Restricted	18,822
Assigned	117,906
Unassigned	1,710,534
Total Fund Balance	1,855,597
Total Liabilities and Fund Balance	\$ 1,887,809

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

Total Governmental Fund Balance	\$ 1,855,597
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.	2,206,836
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and therefore are not reported in the governmental funds.	461,351
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	
Accrued vacation	(16,589)
Net pension liability	(1,211,496)
Net OPEB liability	(320,831)
Total Net Position of Governmental Activities	\$ 2,974,868

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, 2020

	General Fund
<u>Revenues</u>	
Property taxes	\$ 556,804
Insurance premium taxes	332,959
Licenses and permits	35,603
Rental income	19,155
Interest income	4,675
Miscellaneous	14,219
Donations	2,725
Franchise fees	43,980
Fire department subscription fees and runs	82,535
Intergovernmental revenues	115,759
Total Revenues	1,208,414
<u>Expenditures</u>	
Current:	
General government:	
Salaries and benefits	54,015
Administrative travel	1,973
Utilities	21,643
Insurance	4,147
Office expense	6,059
Advertising and printing	2,415
Professional fees	15,762
Repairs and maintenance	3,664
Supplies	1,992
Miscellaneous	1,947
Police department	464,429
Fire department	110,508
Streets and maintenance	137,007
Capital outlay	261,818
Total Expenditures	1,087,379
Excess of Revenues Over Expenditures	121,035
<u>Other Financing Sources</u>	
Proceeds from sale of fixed assets	2,001
Insurance recoveries - impaired assets	14,531
Total Other Financing Sources	16,532
Net Changes in Fund Balance	137,567
Fund Balance - Beginning of Year	1,718,030
Fund Balance - End of Year	\$ 1,855,597

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, 2020**

Net Changes in Fund Balance - Governmental Fund **\$ 137,567**

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. (29,632)

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. (124,679)

The difference in intergovernmental revenue is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds. (22,000)

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. (944)

Changes in Net Position of Governmental Activities **\$ (39,688)**

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2020

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 506,456	\$ 8,500	\$ 104,273	\$ 619,229
Investments	427,049	34,002	8,719	469,770
Receivables, net:				
Accounts - trade	350,655	46,513	32,295	429,463
Miscellaneous	4,459	1,396	1,396	7,251
Due from other funds	-	6,485	-	6,485
Prepaid expenses	4,510	558	558	5,626
Total Current Assets	1,293,129	97,454	147,241	1,537,824
Noncurrent Assets				
Restricted cash	1,778,030	68,354	-	1,846,384
Capital assets:				
Land and construction in process	137,000	138,161	-	275,161
Other capital assets, net of depreciation	30,786,679	4,025,373	273,196	35,085,248
Total Noncurrent Assets	32,701,709	4,231,888	273,196	37,206,793
Total Assets	33,994,838	4,329,342	420,437	38,744,617
Deferred Outflows of Resources				
Deferred amount on debt refundings	7,612	2,611	-	10,223
Deferred amounts related to pensions	94,967	13,394	18,461	126,822
Deferred amounts related to OPEB	42,986	6,060	8,351	57,397
Total Deferred Outflows of Resources	145,565	22,065	26,812	194,442
Liabilities				
Current Liabilities				
Accounts payable	18,277	7,268	11,730	37,275
Due on construction contracts	128,647	-	-	128,647
Due to other funds	106,485	-	-	106,485
Accrued expenses	25,059	-	-	25,059
Interest payable	118,201	6,553	-	124,754
Accrued vacation and payroll	11,471	1,494	1,991	14,956
Unearned revenue	45,889	-	-	45,889
Current portion of long-term debt	1,116,112	145,748	51,277	1,313,137
Total Current Liabilities	1,570,141	161,063	64,998	1,796,202
Noncurrent Liabilities				
Customer deposits payable	287,335	-	-	287,335
Due to Greenshore customers	23,500	-	-	23,500
Loans payable	7,288,489	1,603,117	65,453	8,957,059
Revenue bonds payable	10,375,427	324,279	-	10,699,706
Net pension liability	425,074	59,854	82,438	567,366
Net OPEB liability	101,626	14,310	19,709	135,645
Total Noncurrent Liabilities	18,501,451	2,001,560	167,600	20,670,611
Total Liabilities	20,071,592	2,162,623	232,598	22,466,813
Deferred Inflows of Resources				
Deferred amounts related to pensions	77,372	10,895	15,005	103,272
Deferred amounts related to OPEB	62,527	8,805	12,126	83,458
Total Deferred Inflows of Resources	139,899	19,700	27,131	186,730
Net Position				
Net investment in capital assets	12,127,763	2,093,001	156,466	14,377,230
Restricted for capital and debt service	1,917,744	102,356	8,719	2,028,819
Unrestricted	(116,595)	(26,273)	22,335	(120,533)
Total Net Position	\$ 13,928,912	\$ 2,169,084	\$ 187,520	\$ 16,285,516

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
<u>Operating Revenues</u>				
Charges for services	\$ 3,629,322	\$ 506,473	\$ 356,715	\$ 4,492,510
Penalty charges	43,225	4,962	2,704	50,891
Connection fees	127,230	4,500	-	131,730
Total Operating Revenues	3,799,777	515,935	359,419	4,675,131
<u>Operating Expenses</u>				
Salaries and benefits	375,228	56,433	73,925	505,586
Maintenance and supplies	59,609	13,020	24,496	97,125
Chemicals	45,978	-	-	45,978
Contract operations	1,151,766	282,017	174,993	1,608,776
Professional fees	15,468	6,319	3,959	25,746
Office and advertising	38,502	13,741	13,494	65,737
Landfill fees	-	-	77,697	77,697
Depreciation	1,174,101	196,769	55,241	1,426,111
Rental expense	5,400	3,300	4,800	13,500
Insurance	31,335	10,193	1,781	43,309
Utilities	376,348	49,675	1,151	427,174
Miscellaneous	364	-	862	1,226
Total Operating Expenses	3,274,099	631,467	432,399	4,337,965
Operating Income (Loss)	525,678	(115,532)	(72,980)	337,166
<u>Non-Operating Revenues (Expenses)</u>				
Interest income	33,726	2,990	113	36,829
Rental income	48,724	-	-	48,724
Other income	1,051	30	-	1,081
Gain on disposal of fixed assets	473	-	288	761
Debt service costs	(216,771)	-	-	(216,771)
Insurance recoveries - impaired assets	2,974	-	-	2,974
Interest expense	(461,899)	(32,275)	(4,880)	(499,054)
Total Non-Operating Revenues (Expenses)	(591,722)	(29,255)	(4,479)	(625,456)
Income (Loss) Before Capital Contributions	(66,044)	(144,787)	(77,459)	(288,290)
Capital Contributions	45,220	-	-	45,220
Changes in Net Position	(20,824)	(144,787)	(77,459)	(243,070)
Net Position - Beginning of Year	13,949,736	2,313,871	264,979	16,528,586
Net Position - End of Year	\$ 13,928,912	\$ 2,169,084	\$ 187,520	\$ 16,285,516

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, 2020

	Enterprise Funds			
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	Total
<u>Cash Flows from Operating Activities:</u>				
Cash received from customers and others	\$ 3,781,390	\$ 515,942	\$ 358,498	\$ 4,655,830
Cash payments to suppliers for goods and services	(1,730,745)	(375,671)	(290,540)	(2,396,956)
Cash payments to employees for services	(243,768)	(37,854)	(48,273)	(329,895)
Net Cash Provided by Operating Activities	1,806,877	102,417	19,685	1,928,979
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(958,328)	(33,340)	-	(991,668)
Proceeds from sale of capital assets	473	-	288	761
Capital contributions	45,220	-	-	45,220
Payment on Greenshore liability	(470)	-	-	(470)
Insurance recoveries	2,974	-	-	2,974
Proceeds from debt	7,071,019	-	-	7,071,019
Principal paid on debt	(7,025,692)	(139,896)	(45,416)	(7,211,004)
Interest paid on debt	(401,996)	(32,207)	(4,880)	(439,083)
Net Cash Used by Capital and Related Financing Activities	(1,266,800)	(205,443)	(50,008)	(1,522,251)
<u>Cash Flows from Noncapital Financing Activities:</u>				
Interfund activity	(169,855)	(1,767)	2,287	(169,335)
Net Cash Provided (Used) by Noncapital Financing Activities	(169,855)	(1,767)	2,287	(169,335)
<u>Cash Flows from Investing Activities:</u>				
Interest income	30,267	610	113	30,990
Other non-operating income and expenses	49,775	30	-	49,805
Net Cash Provided by Investing Activities	80,042	640	113	80,795
Net Increase (Decrease) in Cash and Cash Equivalents	450,264	(104,153)	(27,923)	318,188
Cash and Cash Equivalents - Beginning of Year	2,261,271	215,009	140,915	2,617,195
Cash and Cash Equivalents - End of Year	\$ 2,711,535	\$ 110,856	\$ 112,992	\$ 2,935,383
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Operating income (loss)	\$ 525,678	\$ (115,532)	\$ (72,980)	\$ 337,166
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,174,101	196,769	55,241	1,426,111
Change in assets and liabilities:				
Construction in progress	-	1,200	-	1,200
Receivables, net	(34,424)	7	(921)	(35,338)
Prepaid expenses	(980)	393	4,781	4,194
Deferred outflows related to pensions and OPEB	(3,295)	(509)	(738)	(4,542)
Accounts payable	(9,052)	1,001	7,912	(139)
Accrued expenses	4,057	-	-	4,057
Other liabilities	16,916	140	203	17,259
Net pension and OPEB liabilities	30,417	4,373	6,108	40,898
Deferred inflows related to pensions and OPEB	103,459	14,575	20,079	138,113
Total Adjustments	1,281,199	217,949	92,665	1,591,813
Net Cash Provided by Operating Activities	\$ 1,806,877	\$ 102,417	\$ 19,685	\$ 1,928,979

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, 2020**

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, 2020**

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, 2020**

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 \$17,505 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, 2020, the allowances for uncollectible trade and property tax receivables were \$37,599 and \$12,460, 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, 2020**

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, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Balance (Concluded)

- Nonspendable fund balance - amounts that are not in a spendable form (such as prepayments) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The City did not establish any fund balance commitments for the fiscal year. Assigned fund balance is established by the Mayor through adoption or amendment of the budget as intended for a specific purpose. Unrestricted and unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

Property Tax Calendar

The City's property taxes are levied before the first day of November on the assessed values as of January 1 for all real and personal property located in the city, including vehicles. Property taxes are due December 31 and become delinquent January 1 of the following year. The delinquent tax claims become a lien on the property when sold (usually the following May). The City's real and personal property tax rate is \$.33 per \$100 valuation for general fund purposes and \$.03 per \$100 valuation for fire department purposes. The City's vehicle tax rate is \$.28 per \$100 of assessed value.

New Accounting Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations, and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, were effective for the fiscal year; however, these were implemented in the fiscal year ended June 30, 2019.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

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

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

NOTE C - CASH AND INVESTMENTS

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2020, the reported amount of the City's cash and cash equivalents was \$4,138,099 and the bank balance was \$4,241,499. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year-end, \$500,000 of the City's deposits was insured and \$3,423,779 was collateralized with securities held by the pledging financial institution on behalf of the City, but not in the City's name. \$214,320 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, \$142,845 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 \$326,925 is uninsured and unregistered. These investments are valued using quoted market prices (Level 1 input), which was \$469,770 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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE C - CASH AND INVESTMENTS (CONCLUDED)

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, 2020 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 506,456	\$ 8,500	\$104,273	\$ 619,229
Restricted cash	1,778,030	68,354	-	1,846,384
Investments	427,049	34,002	8,719	469,770
Total	<u>\$2,711,535</u>	<u>\$110,856</u>	<u>\$112,992</u>	<u>\$2,935,383</u>

NOTE D - LONG-TERM DEBT

Bonds Payable

The construction costs of the City's water and sewer facilities have been financed by the issuance of the revenue bonds listed below, with the exception of the 2012 issue, which was for the purchase of a garbage truck. The bonds are secured by and payable on parity from the gross revenues of the utilities system and sanitation fund, as applicable, and are secured by the statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes. In the event of default, any owner of current bonds may file suit and the court may appoint a receiver with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding bonds.

The original amount of the bond issues, the issue dates, interest rates, and outstanding balances at June 30, 2020 are summarized in the following table.

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
2006A*	1/1/06	4.125%	6/1/45	\$4,803,000	\$ -
2006B*	1/1/06	4.125%	6/1/45	\$2,660,000	\$ -
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,148,600
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,743,000
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 20,000
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$1,565,000
2019 (R)	11/6/19	2.25% to 3%	2/1/46	\$6,675,000	\$6,675,000

R – Denotes refunding bond

* – Refunded with 2019 bond

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE D - LONG-TERM DEBT (CONTINUED)

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 \$72,726.

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 \$1,754,105.

During the year ended June 30, 2010, the City completed a funding agreement with KIA in the amount of \$1,999,250 to help finance the cost of additional water lines. The loan terms include forty semi-annual payments of \$55,270, which include interest at 1%, and ten annual transfers of \$16,750 to the replacement and maintenance reserve account. The loan balance at year-end was \$1,049,440.

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 \$1,786,986.

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 \$342,816 and \$172,404, 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 \$2,213,985.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE D - LONG-TERM DEBT (CONTINUED)

Loans Payable (Concluded)

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 \$468,442.

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 \$1,188,644.

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 \$96,730.

During the year ended June 30, 2019, the City secured a \$756,664 loan from KIA for water line expansion projects. At year-end, the City had drawn \$628,017 to date. 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 \$628,017.

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, 2020, including interest payments are as follows:

Fiscal Year Ending June 30,	Business-Type Activities			
	Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 495,900	\$ 344,889	\$ 817,237	\$ 100,226
2022	427,700	329,031	826,391	91,072
2023	445,200	315,130	820,575	81,948
2024	462,100	300,616	780,388	73,161
2025	484,100	285,506	788,260	65,289
2026 - 2030	1,982,100	1,234,823	3,447,826	211,557
2031 - 2035	1,833,100	968,287	1,858,807	72,070
2036 - 2040	1,981,500	684,712	434,811	13,751
2041 - 2045	2,323,100	346,002	-	-
2046 - 2050	716,800	54,862	-	-
Totals	<u>\$11,151,600</u>	<u>\$4,863,858</u>	<u>\$9,774,295</u>	<u>\$709,074</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE D - LONG-TERM DEBT (CONCLUDED)

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due In One Year
<u>Business-Type Activities</u>					
Bonds payable	\$10,904,600	\$6,675,000	\$6,428,000	\$11,151,600	\$ 495,900
Loans payable	9,929,282	628,017	783,004	9,774,295	817,237
Premium	65,072	-	5,838	59,234	-
Discount	-	(15,227)	-	(15,227)	-
Net bonds and loans payable	20,898,954	7,287,790	7,216,842	20,969,902	1,313,137
Customer deposits	272,635	81,850	67,150	287,335	-
Due to Greenshore	23,970	286	756	23,500	-
	<u>\$21,195,559</u>	<u>\$7,369,926</u>	<u>\$7,284,748</u>	<u>\$21,280,737</u>	<u>\$1, 313,137</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 \$12,506 for road aid and \$6,316 for drug enforcement activities, while restricted net position of the Business-Type Activities included \$2,028,819 for capital and debt service.

NOTE F - FUND BALANCE

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	<u>\$ 8,335</u>
Restricted:	
Road aid	12,506
Drug enforcement	<u>6,316</u>
Total Restricted	<u>18,822</u>
Assigned:	
Industrial development	112,016
Fire department	<u>5,890</u>
Total Assigned	<u>117,906</u>
Unassigned	<u>1,710,534</u>
Total Fund Balance	<u>\$1,855,597</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

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

CERS Non-hazardous

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

CERS Hazardous

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

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, 2020.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE G - PENSION PLANS (CONTINUED)

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, 2020, the City reported a liability of \$1,778,862 for its proportionate share of the net pension liability for CERS, which included \$692,755 for non-hazardous and \$1,086,107 for hazardous. The total pension liability, net pension liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date of June 30, 2018 to the plan's fiscal year ended June 30, 2019, 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, 2018 through June 30, 2019. At June 30, 2019, the City's proportion was 0.00985% non-hazardous and 0.03932% hazardous, a decrease of 0.00294% and an increase of 0.01097%, respectively, over the prior year.

For the year ended June 30, 2020, the City recognized total pension expense of \$379,273 for CERS, which included \$90,220 for non-hazardous and \$289,053 for hazardous.

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

	Deferred Outflows of Resources	Deferred Resources
Differences between expected and actual experience	\$ 63,834	\$ 2,927
Changes of assumptions	175,543	-
Net difference between projected and actual earnings on pension plan investments	-	26,539
Changes in proportion and differences between City contributions and proportionate share of contributions	182,370	112,000
City contributions subsequent to the measurement date	115,595	-
	<u>\$537,342</u>	<u>\$141,466</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE G - PENSION PLANS (CONTINUED)

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

\$115,595 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, 2021. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2021	\$179,973
2022	72,635
2023	25,900
2024	1,773

Actuarial assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions (updated from the actuarial assumptions used for June 30, 2018):

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.

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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE G - PENSION PLANS (CONCLUDED)

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

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	3.89%

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 5.25%	Current Discount 6.25%	1% Increase 7.25%
Non-hazardous	\$866,440	\$692,755	\$547,990
Hazardous	\$1,357,877	\$1,086,107	\$863,294

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, 2020**

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.

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, 2020.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020, the City reported a liability of \$456,476 for its proportionate share of the net OPEB liability for CERS, which included \$165,622 for non-hazardous and \$290,854 for hazardous. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled forward from the valuation date of June 30, 2018 to the plan's fiscal year ended June 30, 2019, 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, 2018 through June 30, 2019. At June 30, 2019, the City's proportion was 0.00985% non-hazardous and 0.03931% hazardous, a decrease of 0.00294% and an increase of 0.01096%, respectively, over the prior year.

For the year ended June 30, 2020, the City recognized total OPEB expense of \$72,218 for CERS, which included \$11,088 for non-hazardous and \$61,130 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	\$ -	\$104,080
Changes of assumptions	136,904	879
Net difference between projected and actual earnings on OPEB plan investments	-	24,078
Changes in proportion and differences between City contributions and proportionate share of contributions	61,921	44,266
City contributions subsequent to the measurement date	37,442	-
	<u>\$236,267</u>	<u>\$173,303</u>

\$37,442 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, 2021. 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
2021	\$26,197
2022	10,725
2023	3,668
2024	(1,046)
2025	(11,199)
Thereafter	(2,823)

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date:	June 30, 2018
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 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare Trend Rates (age 65 and over):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

The mortality table used for active members 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 5.68%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-four year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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)

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 5.68% for non-hazardous and 5.69% 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 4.68%	Current Discount 5.68%	1% Increase 6.68%
Non-hazardous	\$221,865	\$165,622	\$119,281
	4.69%	5.69%	6.69%
Hazardous	\$405,799	\$290,854	\$197,551

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	\$123,174	\$165,622	\$217,095
Hazardous	\$202,380	\$290,854	\$398,786

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

NOTE I - 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 \$38 in lease expense for the fiscal year.

NOTE J - 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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE K - CAPITAL ASSETS

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

	July 1, 2019	Additions	Deletions	June 30, 2020
<u>Governmental Activities</u>				
Not Depreciated:				
Land	\$ 295,145	\$ -	\$ -	\$ 295,145
Subtotal	295,145	-	-	295,145
Depreciated:				
Buildings and improvements	969,921	10,869	(2,142)	978,648
Furniture and fixtures	70,810	4,546	-	75,356
Equipment	884,064	63,398	(3,469)	943,993
Vehicles	1,152,226	-	-	1,152,226
Parks	168,530	-	-	168,530
Infrastructure	1,893,471	183,005	-	2,076,476
Subtotal	5,139,022	261,818	(5,611)	5,395,229
Accumulated Depreciation	3,197,699	291,450	(5,611)	3,483,538
Net Capital Assets	\$ 2,236,468	\$ (29,632)	\$ -	\$ 2,206,836
<u>Business-Type Activities</u>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Construction in process	155,626	7,635	(163,261)	-
Subtotal	430,787	7,635	(163,261)	275,161
Depreciated:				
Buildings and improvements	311,125	-	-	311,125
Equipment	987,955	26,955	(13,233)	1,001,677
Vehicles	132,759	39,438	(30,111)	142,086
Treatment plants	15,244,982	313,693	-	15,558,675
Distribution system	27,646,410	871,521	-	28,517,931
Wastewater plant	7,299,070	21,984	-	7,321,054
Subtotal	51,622,301	1,273,591	(43,344)	52,852,548
Accumulated Depreciation	16,384,533	1,426,111	(43,344)	17,767,300
Net Capital Assets	\$35,668,555	\$ (144,885)	\$ (163,261)	\$35,360,409

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2019	Additions	Deletions	June 30, 2020
<u>Governmental Activities</u>				
Buildings and improvements	\$ 497,029	\$ 36,551	\$ (2,142)	\$ 531,438
Furniture and fixtures	66,410	1,148	-	67,558
Equipment	586,847	58,075	(3,469)	641,453
Vehicles	833,034	58,576	-	891,610
Parks	111,461	9,189	-	120,650
Infrastructure	1,102,918	127,911	-	1,230,829
Total	\$ 3,197,699	\$ 291,450	\$ (5,611)	\$ 3,483,538

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE K - CAPITAL ASSETS (CONCLUDED)

	July 1, 2019	Additions	Deletions	June 30, 2020
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 185,735	\$ 10,652	\$ -	\$ 196,387
Equipment	526,006	92,205	(13,233)	604,978
Vehicles	113,648	9,404	(30,111)	92,941
Treatment plants	4,610,582	402,464	-	5,013,046
Distribution system	7,818,543	717,668	-	8,536,211
Wastewater plant	3,130,019	193,718	-	3,323,737
Total	<u>\$16,384,533</u>	<u>\$1,426,111</u>	<u>\$ (43,344)</u>	<u>\$17,767,300</u>

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

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General government	\$152,941	O&M	\$1,174,101
Streets and maintenance	3,001	Wastewater	196,769
Police department	25,766	Sanitation	55,241
Fire department	109,742		
	<u>\$291,450</u>		<u>\$1,426,111</u>

NOTE L - 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, \$45,889 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 M - INTERFUND ACTIVITY

The O&M Fund repaid \$169,335 to the General Fund for an operating loan made in a prior year and \$4,718 and \$2,287 to the WWT and Sanitation Funds, respectively, for utility sales deposited to the wrong fund in the prior year. The remaining balance owed to the General Fund will be repaid as funds become available. The following interfund balances existed at year-end:

Due From	Due To	Amount	Purpose
O&M Fund	General Fund	\$100,000	Operating loan
O&M Fund	WWT Fund	6,485	Expenses
		<u>\$106,485</u>	

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE N - COMMITMENTS AND CONTINGENCIES

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

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

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 \$1,555,194, 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, 2020, the City billed \$165,668 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, 2020, the City billed Cloverport \$180,607 for water.

In August 2019, the City was awarded a sidewalk grant in the amount of \$400,000 (\$320,000 in grant proceeds and \$80,000 local match). No work has been performed during the fiscal year.

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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE O - SUBSEQUENT EVENTS

As a result of the pandemic mentioned in Note N, the City was allotted \$168,621 in Coronavirus Relief Funds, which was received in November 2020 to reimburse the City for police department payroll expenses incurred during the pandemic.

In November 2020, the City voted to move forward with a waterline expansion project that is expected to cost \$2.4 million, with possible funding from a Rural Development grant for one-fourth of the cost.

NOTE P - LITIGATION

There is a current claim against the City for property damage from a water line break. The dollar amount is immaterial; however there is the potential for some twenty other residents to file similar claims. The likelihood of this action and possible damages cannot be determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
<u>Revenues</u>				
Property taxes	\$ 550,412	\$ 555,144	\$ 556,804	\$ 1,660
Insurance premium taxes	289,000	292,000	332,959	40,959
Licenses and permits	32,975	33,889	35,603	1,714
Rental income	19,100	19,155	19,155	-
Interest income	4,500	4,678	4,675	(3)
Miscellaneous	6,827	13,469	14,219	750
Donations	21,300	2,725	2,725	-
Franchise fees	49,433	44,950	43,980	(970)
Fire department subscription fees and runs	61,840	81,061	82,535	1,474
Intergovernmental revenues	85,962	150,525	115,759	(34,766)
Total Revenues	1,121,349	1,197,596	1,208,414	10,818
<u>Expenditures</u>				
Current:				
General government	149,729	126,313	113,617	12,696
Police department	491,401	480,284	464,429	15,855
Fire department	116,520	123,685	110,508	13,177
Streets and maintenance	149,340	145,801	137,007	8,794
Capital outlay	453,731	302,737	261,818	40,919
Total Expenditures	1,360,721	1,178,820	1,087,379	91,441
Excess (Deficiency) of Revenues Over Expenditures	(239,372)	18,776	121,035	102,259
<u>Other Financing Sources</u>				
Proceeds from sale of fixed assets	2,000	2,001	2,001	-
Insurance recoveries	-	14,531	14,531	-
Total Other Financing Sources	2,000	16,532	16,532	-
Net Changes in Fund Balance	(237,372)	35,308	137,567	102,259
Fund Balance - Beginning of Year	933,621	947,629	1,726,991	779,362
Fund Balance - End of Year	\$ 696,249	\$ 982,937	\$ 1,864,558	\$ 881,621

See accompanying note to budgetary comparison schedule.

**CITY OF HARDINSBURG, KENTUCKY
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2020**

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 6 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>						
<u>Non-Hazardous</u>						
City's proportion of the net pension liability	0.00985%	0.01279%	0.01221%	0.01066%	0.01286%	0.01257%
City's proportionate share of the net pension liability	\$ 692,755	\$ 778,645	\$ 714,747	\$ 524,876	\$ 552,942	\$ 408,000
City's covered payroll	\$ 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	278.82%	245.72%	240.40%	206.40%	184.28%	141.44%
Plan fiduciary net position as a percentage of the total pension liability	50.447%	53.542%	53.325%	55.503%	59.968%	66.801%
<u>Hazardous</u>						
City's proportion of the net pension liability	0.03932%	0.02835%	0.02758%	0.02736%	0.02043%	0.02310%
City's proportionate share of the net pension liability	\$ 1,086,107	\$ 685,536	\$ 616,997	\$ 469,559	\$ 313,604	\$ 278,000
City's covered payroll	\$ 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	485.02%	434.15%	407.56%	330.06%	300.11%	237.63%
Plan fiduciary net position as a percentage of the total pension liability	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 June 30th of the prior fiscal year; therefore, the City's covered payroll reported above differs from the City's fiscal year payroll as reported in the Schedule of City Pension Contributions.

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

See accompanying notes to pension and OPEB schedules.

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

Last 6 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>						
Contractually required contribution	\$ 41,824	\$ 40,300	\$ 45,884	\$ 41,476	\$ 31,585	\$ 38,257
Contributions in relation to the contractually required contribution	<u>(41,824)</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>
City's covered payroll	\$ 216,704	\$ 248,458	\$ 316,882	\$ 297,320	\$ 254,305	\$ 300,054
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%
<u>Hazardous</u>						
Contractually required contribution	\$ 73,771	\$ 55,691	\$ 35,055	\$ 32,866	\$ 28,823	\$ 21,662
Contributions in relation to the contractually required contribution	<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>
City's covered payroll	\$ 245,412	\$ 223,929	\$ 157,904	\$ 151,388	\$ 142,266	\$ 104,496
Contributions as a percentage of covered payroll	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's Proportionate Share of the Net Pension Liability.

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

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

See accompanying notes to pension and OPEB schedules.

CITY OF HARDINSBURG, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
Last 3 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>			
<u>Non-Hazardous</u>			
City's proportion of the net OPEB liability	0.00985%	0.01279%	0.01221%
City's proportionate share of the net OPEB liability	\$ 165,622	\$ 226,995	\$ 245,483
City's covered payroll	\$ 248,458	\$ 316,882	\$ 297,320
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	60.438%	57.622%	52.394%
<u>Hazardous</u>			
City's proportion of the net OPEB liability	0.03931%	0.02835%	0.02758%
City's proportionate share of the net OPEB liability	\$ 290,854	\$ 202,110	\$ 227,979
City's covered payroll	\$ 223,929	\$ 157,904	\$ 151,388
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	129.89%	128.00%	150.59%
Plan fiduciary net position as a percentage of the total OPEB liability	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 3 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Non-Hazardous</u>			
Contractually required contribution	\$ 10,315	\$ 13,069	\$ 14,893
Contributions in relation to the contractually required contribution	<u>(10,315)</u>	<u>(13,069)</u>	<u>(14,893)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 216,704	\$ 248,458	\$ 316,882
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%
 <u>Hazardous</u>			
Contractually required contribution	\$ 23,363	\$ 23,445	\$ 14,764
Contributions in relation to the contractually required contribution	<u>(23,363)</u>	<u>(23,445)</u>	<u>(14,764)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 245,412	\$ 223,929	\$ 157,904
Contributions as a percentage of covered payroll	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, 2020**

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.

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.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2021.

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 2020-001 to 2020-003, 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 three 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 2020-004 through 2020-006.

We noted certain additional matters that we have reported to management in a separate letter dated January 12, 2021.

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
Certified Public Accountants

Hardinsburg, KY

January 12, 2021

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

Finding: 2020-001 (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 2020-2021.</i>

Finding: 2020-002 (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 2020-2021 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.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

Finding: 2020-003 (Repeat)

<i>Condition:</i>	Upon inquiry of City staff regarding decreasing sanitation revenues, it was discovered that seven sanitation customers were being charged incorrectly, resulting in under billings.
<i>Criteria:</i>	As sanitation is generally the most consistent month-to-month of any utility, a sudden substantial drop in revenue is an indication that a deficiency exists somewhere in the system.
<i>Cause:</i>	The sanitation rates for some customers were entered incorrectly when the City switched utility billing software.
<i>Effect:</i>	The City lost sanitation revenues as a result of the under billings.
<i>Recommendation:</i>	The City should monitor revenues for unexplained fluctuations and research any discrepancies. More effort should be made to ensure utility rates are entered in the utility billing system correctly.
<i>Management Response:</i>	<i>This was corrected in September 2019 when it was discovered during the prior audit.</i>

Finding: 2020-004 (Repeat)

<i>Condition:</i>	The City purchased two sets of membranes for the wastewater treatment plant, each in excess of \$30,000, without competitive bidding.
<i>Criteria:</i>	Kentucky bid law (KRS 424.260) requires that cities expending \$30,000 or more for a single purchase advertise for bids unless certain exceptions are met. These include declaration of an emergency or utilizing a state price contract, but not single sources.
<i>Cause:</i>	Many purchases made by the City for the upkeep of the wastewater treatment plant can only be obtained from one vendor.
<i>Effect:</i>	The City was in violation of KRS 424.260.
<i>Recommendation:</i>	Although the City was not aware of other vendors able to provide the membranes, it does not negate the requirement to solicit bids. We also previously recommended that the City adopt KRS 45A.343-45A.460, "The Model Procurement Code", which will provide more options for purchasing.
<i>Management Response:</i>	<i>The City has adopted the model procurement code effective March 2020.</i>

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

Finding: 2020-005 (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.</i>

Finding: 2020-006 (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.</i>

MANAGEMENT LETTER



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MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2020, 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 January 12, 2021, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated January 12, 2021, on the basic financial statements of the City of Hardinsburg.

PRIOR YEAR

With the increasing financial pressures placed on governmental entities, the City may need to more effectively monitor its financial situation. As the City continues to undertake major construction projects, there is a substantial rising cost for the operations and maintenance contract for the water plant and distribution system (\$111,259 increase over the prior year). In addition, interest expense has increased substantially as a result of the increased debt, and sizeable transfers must be made to depreciation reserve funds. In prior years, the City's General Fund had to transfer money to cover water plant expenses, and at year-end, the O&M Fund still owed the General Fund \$100,000. While increasing customer rates annually will relieve some of the financial pressure, the City should also meet with Veolia to review opportunities to cut costs or reduce increases in future contracts, as well as continue to explore options to refinance older debt at lower interest rates.

As in the prior year, we noted some issues during the testing of seventy-five disbursements. Three disbursements were not supported by purchase orders, eleven invoices appeared to lack proper approval, five invoices were not cancelled, five disbursements were not supported by receiving reports, one had no supporting invoice, and three were not paid within thirty days. There were four payments made from statements that did not have all of the receipts or invoices attached. In some instances, the purchase order was not signed by an authorized individual. 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.

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

CURRENT YEAR

During the testing of payroll, we noted an employee was overpaid \$1,877 on one paycheck due to the wrong hourly rate being used. This error was not discovered until the employee received the check stub and brought it to the City’s attention. While the error was later corrected, and the employee returned the overpayment, the controls were not in place to prevent the error. We recommend that those individuals tasked with preparing and approving payroll make more effort to review the amounts that are being paid for improprieties. As employees are paid weekly, only minimal variance should be expected from week-to-week.

During the audit, we discovered several issues regarding compensated absences. We noted multiple errors in the spreadsheets used to track vacation and sick time for employees. As mentioned above, several employees were allowed to accrue more than the maximum vacation allowed according to City policy. There were errors in various formulas in the spreadsheets and a few employees received extra accruals for some months. The City adopted a policy increasing vacation for employees employed over thirty years, but the additional vacation was added retroactively instead of from the point the ordinance was adopted. In another instance, an employee that resigned was allowed to donate accumulated sick time to another employee, but the policy states that the same terms and conditions apply as if the time was taken by the donor; therefore, the donee should only be entitled to use the donated sick time if he/she is off for a reason described in section 36.092 of the personnel policy at the time of donation. 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, KY

January 12, 2021