

CITY OF HARRODSBURG, KENTUCKY

**Report on Audited Financial Statements
and Supplementary Information for the
Year Ended June 30, 2016**

**CRAIG A. BUTLER
CERTIFIED PUBLIC ACCOUNTANT
DANVILLE, KENTUCKY**

CONTENTS

| | Page |
|--|------|
| Independent Auditors' Report..... | I |
| Required Supplementary Information: | |
| Management Discussion and Analysis..... | III |
| Basic Financial Statements | |
| Government-Wide Financial Statements: | |
| Statement of Net Position..... | 1 |
| Statement of Activities..... | 3 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds..... | 6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities - Governmental Funds..... | 7 |
| Statement of Net Position - Proprietary Fund..... | 8 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund..... | 9 |
| Statement of Cash Flows - Proprietary Fund..... | 10 |
| Statement of Net Position - Fiduciary Fund..... | 12 |
| Statement of Changes in Net Position - Fiduciary Fund..... | 13 |
| Notes to Basic Financial Statements..... | 14 |
| Required Supplementary Information: | |
| Notes to the Required Supplementary Information on Budgetary Accounting and Control..... | 37 |
| Schedule of Proportionate Share of the Net Pension Liability..... | 38 |
| Schedule of Contributions..... | 39 |
| Budgetary Comparison Schedules: | |
| General Fund: | |
| Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual..... | 40 |
| Statement of Revenue - Budgeted and Actual..... | 41 |
| Statement of Expenditures - Budgeted and Actual..... | 43 |
| Other Supplementary Information: | |
| Non-Major Funds: | |
| Combining Balance Sheet..... | 45 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 46 |
| Proprietary Funds: | |
| Balance Sheet - Municipal Waterworks and Sewer System..... | 47 |
| Combining Statement of Revenues and Expenses - Municipal Waterworks and Sewer System..... | 48 |
| Schedule of Utility Operating Expenses - Municipal Waterworks and Sewer System..... | 49 |
| Federal Grant Disclosures: | |
| Notes to the Schedule of Expenditures of Federal Awards..... | 50 |
| Schedule of Expenditures of Federal Awards..... | 51 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 52 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133..... | 54 |
| Schedule of Findings and Questioned Cost..... | 56 |

City of Harrodsburg, Kentucky
Management Discussion and Analysis
June 30, 2016

OVERVIEW

The report on Audited Financial Statements and Supplementary information for the year ended June 30, 2016 for the City of Harrodsburg, Kentucky contains various financial statements and disclosures required by GASB (Governmental Accounting Standards Board) and other reporting required by Federal and State Governments.

BASIC FINANCIAL STATEMENTS

The basic financial statements include both government-wide financial statements and fund financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 1-4) and they provide information about the activities of the city as a whole and present a longer-term view of the City's finances. The fund financial statements (beginning on page 5) focus on governmental activities and how various services were financed in the short-term as well as the balance remaining for future spending. Fund financial statements also report the City's operations in more detail than government-wide statements by providing information about the City's most significant funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities report information on the City as a whole. These statements include assets and liabilities using the accrual basis of accounting, which is similar to the accounting basis used by most private sector companies. All the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net position and the changes in net position. The City's net position represents the difference between assets and liabilities, and is one way to measure the City's financial health or financial position, over time, in that increases or decreases in the City's net position is one indicator of whether its financial position is improving or deteriorating. Other factors, however, such as changes in the City's tax base, economy, demographics and the condition of the City's infrastructure need to be considered to assess the overall health of the City.

City of Harrodsburg, Kentucky
Management Discussion and Analysis
June 30, 2016

In the Statement of Net Position and Statement of Activities we divide the City into two kinds of activities:

Governmental Activities – Most of the City’s basic services are reported here including general government, police, fire, streets, cemeteries, culture & recreation, and communications. Taxes, licenses, permits, fees, fines, and state and federal grants, and service charges finance most of these activities.

Business-type Activities – The City charges a fee to customers to help it recover all or most of the cost of certain services it provides. The City’s water and sewer services are the primary services reported here.

Our analysis primarily focuses on the net position (Table 1) and changes in net position (Table 2) of the City’s governmental and business-type activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City’s two types of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method referred to as the modified accrual basis of accounting which measures cash, and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the City’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

Proprietary Funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

The City is also the trustee (or fiduciary) for certain activities. We exclude these activities from the City’s governmental-wide financial statements because the City’s use of these assets to finance its operations is very restricted. All of the City’s fiduciary activities are reported in the Statement of Net Position – Fiduciary Fund on page 12 and the Statement

City of Harrodsburg, Kentucky
Management Discussion and Analysis
June 30, 2016

of Changes in Net Position- Fiduciary Fund on page 13. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The following are general comments regarding overall financial position and results of operations for the year.

GOVERNMENTAL ACTIVITIES

The change in the City's net position is one way to measure the City's financial health or financial position. As listed on Table 2, the City's net position related to governmental activities decreased by \$162,368 or approximately 3.8%, indicating an immaterial negative change in the City's financial position. The largest portion of the City's net position (\$3,973,317) or approximately 97.9% reflects its investment in capital assets (e.g. land, buildings, equipment, and infrastructure); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Debt outstanding as of June 30, 2016 was \$361,316 in capital leases and loans used for vehicle and equipment purchases, and for road resurfacing. This is a decrease of \$153,853 or approximately 29.9% from the prior year. During the fiscal year ended June 30, 2016, the City entered into one new capital lease in the amount of \$105,049 for the purchase of police cruisers. Scheduled debt payments for all long-term debt of the City's governmental activities in the amount of \$258,902 were made during the year. As listed on Table I, the City's unreserved and unrestricted governmental fund net position (deficit) was (\$287,319) as of June 30, 2016. Due to the implementation of GASB 68, Accounting and Financial Reporting for Pensions, in the prior year, the City's governmental activities unrestricted net position was restated as of July 1, 2014 which resulted in a decrease in unrestricted net position of \$3,857,336. Therefore, unrestricted net position is substantially lower as of June 30, 2015 and 2016 compared to previous years.

BUSINESS-TYPE ACTIVITIES

The change in the City's net position is one way to measure the City's financial health or financial position. As listed in Table 2, the City's net position related to business-type activities decreased by \$455,293 or approximately 2.1%. The largest portion of the City's net position (\$17,783,742) or approximately 83.1% reflects its investment in capital assets (e.g. land, building, equipment, and water and sewer treatment plants and distribution and collection systems infrastructure), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's

City of Harrodsburg, Kentucky
Management Discussion and Analysis
June 30, 2016

investment is reported net of related debt it should be noted that resources needed to repay this debt must be provided from other sources. Debt outstanding as of June 30, 2016 was \$25,222,027 in capital leases for equipment and bonds and loans issued for major improvements to the utility infrastructure. This is an increase of \$5,409,552 or approximately 27.3% over the prior year. During the fiscal year ended June 30, 2016, the City incurred the following new debt:

1. The City received draws in the amount of \$3,379,187 on Kentucky Infrastructure Authority loan #A15-074 for the purpose of funding the expansion of the City's wastewater treatment plant. This loan bears an interest rate of .75% and is due 20 years from the date the loan was closed. Annual interest and principal payments have yet to be determined and will commence within 12 months from initiation of operation.
2. The City received draws in the amount of \$171,936 on Kentucky Infrastructure Authority loan #F15-031 for the purpose of funding the College and Chestnut Street waterline project. This loan bears an interest rate of .75% and is due 20 years from the date the loan is closed. Annual interest and principal payments have yet to be determined and will commence within 12 months from initiation of operation.
3. The City received draws in the amount of \$225,368 on Kentucky Infrastructure Authority loan #F13-002 for the purpose of funding the north main water storage tank improvement project. The loan bears an interest rate of 1.75% and is due 20 years from the date the loan is closed. Interest and principal payments of approximately \$75,000 are to be paid semi-annually through December 1, 2035.
4. The City received draws in the amount of \$1,181,484 on Kentucky Infrastructure Authority loan #A15-046 for the purpose of funding a sewer line rehabilitation project. This loan bears an interest rate of .75% and is due 20 years from the date the loan is closed. Annual interest and principal payments have yet to be determined and will commence within 12 months from initiation of operation.
5. The City received draws in the amount of \$1,534,549 from Whitaker Bank for the purpose of interim financing to fund expansion of the wastewater treatment plant. This loan bears an interest rate of 3.0% and is due December 1, 2018. Interest is payable quarterly based on the amount of funds that have been drawn on the loan.

Scheduled debt payments for all long-term debt of the City's business-type activities in the amount of \$1,082,972 were made during the year. As listed on Table I, the City's business-type activities maintained unrestricted net position of \$1,574,367. This is a \$459,680 increase over the prior year net position or approximately 41.2% increase. Due to the implementation of GASB 68, Accounting and Financial Reporting for Pensions, in the prior year, the City's business-type activities unrestricted net position was restated as of July 1, 2014 which resulted in a decrease in unrestricted net position of \$827,073.

City of Harrodsburg, Kentucky
Management Discussion and Analysis
June 30, 2016

Water and sewer rates were sufficient to provide adequate revenue for operations and maintaining bond reserve requirements.

BUDGET AND OTHER REQUIRED SUPPLEMENTARY INFORMATION

Required supplemental information starting on page 37 provides budgetary comparison schedules for the General Fund, GASB 68 net pension liability information, and notes to the required supplementary information.

OTHER

The economy and its effects on local employment levels continue to be a major concern for collection of license, fee, and permit revenue. The City collects 74% of its payroll license fees and net profits and 32% of total revenues of the General Fund from ten employers within the City limits. The billings to fifteen customers represent 55% of the Utility system's operating revenue. Improvements and expansions of infrastructure and past annexations provide the opportunity for continuous growth and development within the City. However it is essential that effective and efficient economic development programs be pursued in order to ensure appropriately balanced development and to keep the community competitive in an increasing global market.

The City currently has several commitments outstanding as of June 30, 2016. A discussion of these commitments can be found at footnote VI, page 35 of the financial statements.

ECONOMIC OUTLOOK

The City's management assesses the financial health of the City's funds on an ongoing basis and will continue to do so going forward. As a result of careful monitoring of expenditures in the City's various funds over the past few years, the City has been able to maintain its reserves at a level that management deems appropriate for a city the size of Harrodsburg.

REQUEST FOR INFORMATION

The financial statements of the City of Harrodsburg can be obtained from the City Clerk, City Hall, at 208 South Main Street, Harrodsburg, Kentucky, 40330

TABLE 1**NET POSITION
June 30, 2016**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Current and other assets | \$ 4,199,096 | \$ 5,906,886 | \$ 10,105,982 |
| Capital assets, net | <u>4,334,633</u> | <u>43,005,769</u> | <u>47,340,402</u> |
| Total assets | <u>\$ 8,533,729</u> | <u>\$ 48,912,655</u> | <u>\$ 57,446,384</u> |
| Deferred outflow of resources | <u>\$ 1,064,812</u> | <u>\$ 364,447</u> | <u>\$ 1,429,259</u> |
| Long-term debt outstanding | \$ 361,316 | \$ 25,222,027 | \$ 25,583,343 |
| Net pension obligation | 4,591,500 | 1,273,616 | 5,865,116 |
| Other liabilities | <u>170,164</u> | <u>1,376,131</u> | <u>1,546,295</u> |
| Total liabilities | <u>\$ 5,122,980</u> | <u>\$ 27,871,774</u> | <u>\$ 32,994,754</u> |
| Deferred inflow of funds | <u>\$ 419,394</u> | <u>\$ 0</u> | <u>\$ 419,394</u> |
| Investment in capital assets, net of related debt | \$ 3,973,317 | \$ 17,783,742 | \$ 21,757,059 |
| Restricted | 370,169 | 2,047,219 | 2,417,388 |
| Unrestricted | <u>(287,319)</u> | <u>1,574,367</u> | <u>1,287,048</u> |
| Total net position | <u>\$ 4,056,167</u> | <u>\$ 21,405,328</u> | <u>\$ 25,461,495</u> |

**NET POSITION
June 30, 2015**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Current and other assets | \$ 4,193,581 | \$ 4,829,807 | \$ 9,023,388 |
| Capital assets, net | <u>4,421,378</u> | <u>38,807,589</u> | <u>43,228,967</u> |
| Total assets | <u>\$ 8,614,959</u> | <u>\$ 43,637,396</u> | <u>\$ 52,252,355</u> |
| Deferred outflow of resources | <u>\$ 332,138</u> | <u>\$ 87,711</u> | <u>\$ 419,849</u> |
| Long-term debt outstanding | \$ 515,169 | \$ 20,006,567 | \$ 20,521,736 |
| Net pension obligation | 3,758,574 | 801,835 | 4,560,409 |
| Other liabilities | <u>138,426</u> | <u>984,479</u> | <u>1,122,905</u> |
| Total liabilities | <u>\$ 4,412,169</u> | <u>\$ 21,792,881</u> | <u>\$ 26,205,050</u> |
| Deferred inflow of funds | <u>\$ 316,394</u> | <u>\$ 71,606</u> | <u>\$ 388,000</u> |
| Investment in capital assets, net of related debt | \$ 3,906,209 | \$ 18,995,114 | \$ 22,901,323 |
| Restricted | 260,605 | 1,750,819 | 2,011,424 |
| Unrestricted | <u>51,720</u> | <u>1,114,687</u> | <u>1,166,407</u> |
| Total net position | <u>\$ 4,218,534</u> | <u>\$ 21,860,620</u> | <u>\$ 26,079,154</u> |

TABLE 2
CHANGE IN NET POSITION
June 30, 2016

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|-------------------------------------|------------------------------------|-------------------------------------|--------------------------|
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 128,720 | \$ 6,001,446 | \$ 6,130,166 |
| Operating grants and contributions | 538,225 | | 538,225 |
| Capital grants and contributions | | 71,662 | 71,662 |
| General revenues: | | | |
| Taxes | 2,154,430 | | 2,154,430 |
| Licenses, permits and fees | 3,309,938 | | 3,309,938 |
| Other | 57,192 | 6,183 | 63,375 |
| Transfer | 25,963 | | 25,963 |
| Total revenues | <u>6,214,468</u> | <u>6,079,291</u> | <u>12,293,759</u> |
| Program Expenses | | | |
| General government | 512,736 | | 512,736 |
| Police department | 1,573,459 | | 1,573,459 |
| Fire department | 1,191,588 | | 1,191,588 |
| Street department | 1,159,454 | | 1,159,454 |
| Cemeteries | 389,345 | | 389,345 |
| Culture and recreation | 277,991 | | 277,991 |
| Communications | 440,296 | | 440,296 |
| Non-departmentalized | 831,967 | | 831,967 |
| Water | | 4,178,846 | 4,178,846 |
| Sewer | | 2,355,738 | 2,355,738 |
| Total expenses | <u>6,376,836</u> | <u>6,534,584</u> | <u>12,911,420</u> |
| Change in net position | (162,368) | (455,293) | (617,661) |
| Net position, beginning of year | <u>4,218,535</u> | <u>21,860,621</u> | <u>26,079,156</u> |
| Net position, end of year | <u>\$ 4,056,167</u> | <u>\$ 21,405,328</u> | <u>\$ 25,461,495</u> |

CHANGE IN NET POSITION
June 30, 2015

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 125,331 | \$ 5,565,484 | \$ 5,690,815 |
| Operating grants and contributions | 609,808 | | 609,808 |
| Capital grants and contributions | 500,000 | 1,674,227 | 2,174,227 |
| General revenues: | | | |
| Taxes | 2,037,850 | | 2,037,850 |
| Licenses, permits and fees | 3,300,312 | | 3,300,312 |
| Other | 52,336 | 5,858 | 58,194 |
| Transfer | 16,250 | | 16,250 |
| | | | |
| Total revenues | <u>6,641,887</u> | <u>7,245,569</u> | <u>13,887,456</u> |
| | | | |
| Program Expenses | | | |
| General government | 433,475 | | 433,475 |
| Police department | 1,494,817 | | 1,494,817 |
| Fire department | 1,080,034 | | 1,080,034 |
| Street department | 992,982 | | 992,982 |
| Cemeteries | 302,585 | | 302,585 |
| Culture and recreation | 281,756 | | 281,756 |
| Communications | 307,160 | | 307,160 |
| Non-departmentalized | 1,297,519 | | 1,297,519 |
| Water | | 3,598,454 | 3,598,454 |
| Sewer | | 2,133,899 | 2,133,899 |
| | | | |
| Total expenses | <u>6,190,328</u> | <u>5,732,353</u> | <u>11,922,681</u> |
| | | | |
| Change in net position | 451,559 | 1,513,216 | 1,964,775 |
| | | | |
| Net position, beginning of year | <u>3,766,976</u> | <u>20,347,405</u> | <u>24,114,381</u> |
| | | | |
| Net position end of year | <u>\$ 4,218,535</u> | <u>\$ 21,860,621</u> | <u>\$ 26,079,156</u> |

Independent Auditor's Report

Mayor and Board of Commissioners
City of Harrodsburg, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harrodsburg, Kentucky (the "City") as of and for the year ended June 30, 2016, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows 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 management's discussion and analysis, budgetary comparison information, and net pension liability information on pages III through X and 37 through 44 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements and the combining statements-proprietary fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements, combining statements-proprietary fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining non-major fund financial statements, combining statements-proprietary fund, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 5, 2017, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 the City's internal control over financial reporting and compliance.

Craig A. Butler, CPA

Craig A. Butler
Certified Public Accountant

Danville, Kentucky
January 5, 2017

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ 2,349,269 | \$ 2,481,801 | \$ 4,831,070 |
| Certificates of deposit | | 379,018 | 379,018 |
| Receivables: | | | |
| Taxes and licenses | 1,252,754 | | 1,252,754 |
| Intergovernmental | 26,643 | 110,228 | 136,871 |
| User fees (net) | | 522,750 | 522,750 |
| Due to (from) other funds | (10,584) | 10,584 | |
| Prepaid expenses | 295,680 | 274,674 | 570,354 |
| Total current assets | <u>3,913,762</u> | <u>3,779,055</u> | <u>7,692,817</u> |
| Restricted cash and certificates of deposit | <u>285,334</u> | <u>2,047,219</u> | <u>2,332,553</u> |
| Non-current assets: | | | |
| Capital assets, net | 4,334,633 | 43,005,769 | 47,340,402 |
| Bond issuance costs | | 80,612 | 80,612 |
| Total non-current assets | <u>4,334,633</u> | <u>43,086,381</u> | <u>47,421,014</u> |
| Total assets | <u>\$ 8,533,729</u> | <u>\$ 48,912,655</u> | <u>\$ 57,446,384</u> |
| Deferred outflow of resources | <u>\$ 1,064,812</u> | <u>\$ 364,447</u> | <u>\$ 1,429,259</u> |

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|--------------------------|
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 68,682 | \$ 78,634 | \$ 147,316 |
| Accounts payable, construction | | 863,071 | 863,071 |
| Payroll liabilities | 98,570 | 84,229 | 182,799 |
| Unearned revenue | | 27,001 | 27,001 |
| Customer deposits | | 269,310 | 269,310 |
| Accrued interest payable | 2,912 | | 2,912 |
| Leases and loans payable | 125,823 | 127,382 | 253,205 |
| Total liabilities payable from unrestricted assets | <u>295,987</u> | <u>1,449,627</u> | <u>1,745,614</u> |
| Payable from restricted assets: | | | |
| Accrued interest payable | | 53,886 | 53,886 |
| Loans payable | | 336,355 | 336,355 |
| Bonds payable | | 362,000 | 362,000 |
| Total liabilities payable from restricted assets | | <u>752,241</u> | <u>752,241</u> |
| Total current liabilities | <u>295,987</u> | <u>2,201,868</u> | <u>2,497,855</u> |
| Non-current liabilities: | | | |
| Bonds, leases, and loans payable | 235,493 | 24,396,290 | 24,631,783 |
| Net pension obligation | 4,591,500 | 1,273,616 | 5,865,116 |
| Total non-current liabilities | <u>4,826,993</u> | <u>25,669,906</u> | <u>30,496,899</u> |
| Total liabilities | <u>\$ 5,122,980</u> | <u>\$ 27,871,774</u> | <u>\$ 32,994,754</u> |
| Deferred inflow of resources | <u>\$ 419,394</u> | <u>\$ 0</u> | <u>\$ 419,394</u> |
| NET POSITION | | | |
| Investment in capital assets, net of related debt | \$ 3,973,317 | \$ 17,783,742 | \$ 21,757,059 |
| Restricted | 370,169 | 2,047,219 | 2,417,388 |
| Unrestricted | (287,319) | 1,574,367 | 1,287,048 |
| Total net position | <u>\$ 4,056,167</u> | <u>\$ 21,405,328</u> | <u>\$ 25,461,495</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue |
|----------------------------------|----------------------|-------------------------|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| General government | \$ 512,736 | \$ | \$ 3,000 | \$ (509,736) |
| Police department | 1,573,459 | 4,605 | 133,301 | (1,435,553) |
| Fire department | 1,191,588 | | 69,322 | (1,122,266) |
| Street department | 1,159,454 | | 189,783 | (969,671) |
| Cemeteries | 389,345 | 106,812 | | (282,533) |
| Culture and recreation | 277,991 | 17,303 | | (260,688) |
| Communications | 440,296 | | 142,819 | (297,477) |
| Non-departmentalized | 831,967 | | | (831,967) |
| Total Governmental Activities | <u>6,376,836</u> | <u>128,720</u> | <u>538,225</u> | <u>(5,709,891)</u> |
| Business-Type Activities: | | | | |
| Water | 4,178,846 | 3,410,018 | | (768,828) |
| Sewer | 2,355,738 | 2,591,428 | | 307,352 |
| Total Business-Type Activities | <u>6,534,584</u> | <u>6,001,446</u> | | <u>(461,476)</u> |
| Total | <u>\$ 12,911,420</u> | <u>\$ 6,130,166</u> | <u>\$ 538,225</u> | <u>\$ 71,662</u> |

(Continued)

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Changes in Net Position: | | | |
| Net (expense)/revenue | \$ (5,709,891) | \$ (461,476) | \$ (6,171,367) |
| General revenues: | | | |
| Taxes: | | | |
| Real property | 307,842 | | 307,842 |
| Motor vehicle | 97,317 | | 97,317 |
| Tangible personal property | 35,759 | | 35,759 |
| Public service company | 10,252 | | 10,252 |
| Delinquent | 564 | | 564 |
| Insurance premium | 1,317,147 | | 1,317,147 |
| Restaurant tax | 321,666 | | 321,666 |
| Bank deposits | 43,495 | | 43,495 |
| Payments in lieu of taxes | 20,388 | | 20,388 |
| Licenses, permits, and fees: | | | |
| Payroll license fees | 2,496,771 | | 2,496,771 |
| Net profits license fees | 287,853 | | 287,853 |
| Business license fees | 18,900 | | 18,900 |
| Street license fees | 1,575 | | 1,575 |
| Franchise fees - cable television | 56,757 | | 56,757 |
| Franchise fees - electric | 344,305 | | 344,305 |
| Franchise fees - natural gas | 70,046 | | 70,046 |
| Alcohol fees | 33,731 | | 33,731 |
| Other: | | | |
| Parking fines | 100 | | 100 |
| Penalties and interest | 11,848 | | 11,848 |
| Interest earned | 2,764 | 6,183 | 8,947 |
| Sale of surplus property | 7,044 | | 7,044 |
| Insurance claim proceeds | 3,625 | | 3,625 |
| Miscellaneous | 31,811 | | 31,811 |
| Transfer from other funds | 25,963 | | 25,963 |
| Total general revenues and transfers | <u>5,547,523</u> | <u>6,183</u> | <u>5,553,706</u> |
| Change in net position | <u>(162,368)</u> | <u>(455,293)</u> | <u>(617,661)</u> |
| Net position, beginning of year | 4,218,535 | 22,054,713 | 26,273,248 |
| Prior period adjustment | | <u>(194,092)</u> | <u>(194,092)</u> |
| Net position, beginning of year as restated | <u>4,218,535</u> | <u>21,860,621</u> | <u>26,079,156</u> |
| Net position, end of year | <u>\$ 4,056,167</u> | <u>\$ 21,405,328</u> | <u>\$ 25,461,495</u> |

CITY OF HARRODSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

| | General Fund | Non-Major Funds | Total Governmental Funds |
|------------------------------------|-------------------------|----------------------------|---|
| ASSETS | | | |
| Cash | \$ 2,349,271 | \$ 285,334 | \$ 2,634,605 |
| Receivables: | | | |
| Taxes and licenses | 1,169,819 | 82,935 | 1,252,754 |
| Intergovernmental | 26,643 | | 26,643 |
| Due from other funds | | 1,900 | 1,900 |
| | \$ 3,545,733 | \$ 370,169 | \$ 3,915,902 |
| Total assets | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 68,685 | | \$ 68,685 |
| Payroll liabilities | 98,570 | | 98,570 |
| Due to other funds | 12,484 | | 12,484 |
| | 179,739 | | 179,739 |
| Total liabilities | | | |
| FUND BALANCE | | | |
| Fund balance: | | | |
| Restricted for: | | | |
| Roads | | 219,138 | 219,138 |
| Tourism | | 149,131 | 149,131 |
| Police | | 1,900 | 1,900 |
| Unassigned | 3,365,994 | | 3,365,994 |
| | 3,365,994 | 370,169 | 3,736,163 |
| Total fund balance | | | |
| Total liabilities and fund balance | \$ 3,545,733 | \$ 370,169 | |

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|--------------|
| Prepaid expenses in governmental funds are a use of financial resources and therefore are not reported as an asset | 295,680 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$4,954,798 | 4,334,633 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| Accrued interest | (2,912) |
| Leases and notes payable | (361,316) |
| Certain items related to the City's net pension liability do not affect available financial resources and therefore are not reported in the funds | (3,946,081) |
| Net position of governmental activities | \$ 4,056,167 |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

| | <u>General Fund</u> | <u>Non-Major Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|----------------------------|---|
| Revenues: | | | |
| Taxes | \$ 1,832,764 | \$ 321,666 | \$ 2,154,430 |
| Licenses, permits, and fees | 3,308,038 | | 3,308,038 |
| Intergovernmental revenue | 355,993 | 166,026 | 522,019 |
| Alcohol license fee | | 1,900 | 1,900 |
| Service charges | 128,720 | | 128,720 |
| Other | 73,208 | 193 | 73,401 |
| Total revenues | <u>5,698,723</u> | <u>489,785</u> | <u>6,188,508</u> |
| Expenditures: | | | |
| General government | 474,389 | | 474,389 |
| Police department | 1,628,384 | | 1,628,384 |
| Fire department | 1,151,772 | | 1,151,772 |
| Street department | 671,084 | 595,073 | 1,266,157 |
| Cemeteries | 382,202 | | 382,202 |
| Culture and recreation | 204,271 | | 204,271 |
| Communications | 408,420 | | 408,420 |
| Non-departmentalized | 547,359 | 297,631 | 844,990 |
| Total expenditures | <u>5,467,881</u> | <u>892,704</u> | <u>6,360,585</u> |
| Excess (deficiency) of revenues over expenditures before other financing sources | <u>230,842</u> | <u>(402,919)</u> | <u>(172,077)</u> |
| Other financing sources (uses): | | | |
| Transfers (to) from other funds | (486,521) | 512,484 | 25,963 |
| Lease proceeds | 105,049 | | 105,049 |
| Total other financing sources (uses) | <u>(381,472)</u> | <u>512,484</u> | <u>131,012</u> |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | (150,630) | 109,565 | (41,065) |
| Fund balance, beginning of year | <u>3,516,624</u> | <u>260,604</u> | <u>3,777,228</u> |
| Fund balance, end of year | <u>\$ 3,365,994</u> | <u>\$ 370,169</u> | <u>3,736,163</u> |

CITY OF HARRODSBURG, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

| | |
|---|--------------|
| Net change in fund balances - total governmental funds | \$ (41,065) |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets: | |
| Capital asset purchases | 212,897 |
| Depreciation expense | (299,642) |
| Governmental funds report prepayments of expenditures as an expense while governmental activities report prepaid expenses as an asset | 8,046 |
| Governmental funds report debt proceeds as revenues and debt service payments as expenditures: | |
| Capital lease and note obligation principal payments | 258,902 |
| Capital lease proceeds | (105,049) |
| Accrued interest on loans | 6,795 |
| In the fund financial statements, pension costs are recognized as payments are made to the pension plan; however, in the government-wide financial statements, pension costs are recognized based on the overall changes in the net pension liability and deferred inflows and outflows of resources. | (203,252) |
| Change in net position of governmental activities | \$ (162,368) |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

| | <u>Municipal Waterworks & Sewer System</u> |
|--|--|
| ASSETS | |
| Current assets: | |
| Cash | \$ 2,481,801 |
| Certificates of deposit | 379,018 |
| Accounts receivable, customers (net) | 522,750 |
| Accounts receivable, grantor | 71,662 |
| Accounts receivable, intergovernmental | 27,566 |
| Due from other funds | 21,584 |
| Prepaid expenses | <u>274,674</u> |
| Total unrestricted current assets | <u>3,779,055</u> |
| Restricted cash and certificates of deposit | <u>2,047,219</u> |
| Non-current assets: | |
| Capital assets, net | 43,005,769 |
| Bond issuance costs | <u>80,612</u> |
| Total non-current assets | <u>43,086,381</u> |
| Total assets | <u>\$ 48,912,655</u> |
| Deferred outflow of resources | <u>\$ 364,447</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 78,634 |
| Accounts payable, construction | 863,071 |
| Payroll liabilities | 84,229 |
| Unearned revenue | 27,001 |
| Customer deposits | 269,310 |
| Leases and loans payable | <u>127,382</u> |
| Total liabilities payable from unrestricted assets | <u>1,449,627</u> |
| Payable from restricted assets: | |
| Accrued interest payable | 53,886 |
| Loan payable | 336,355 |
| Bonds payable | <u>362,000</u> |
| Total liabilities payable from restricted assets | <u>752,241</u> |
| Total current liabilities | <u>2,201,868</u> |
| Non-current liabilities: | |
| Bonds, leases, and loans payable | 24,396,290 |
| Net pension obligation | <u>1,273,616</u> |
| Total long term liabilities | <u>25,669,906</u> |
| Total liabilities | <u>\$ 27,871,774</u> |
| Deferred inflow of resources | <u>\$ 0</u> |
| NET POSITION | |
| Invested in capital assets, net of related debt | \$ 17,783,742 |
| Restricted | 2,047,219 |
| Unrestricted | <u>1,574,367</u> |
| Total net position | <u>\$ 21,405,328</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2016

| | <u>Municipal Waterworks & Sewer System</u> |
|--|--|
| Operating revenues: | |
| Water sales | \$ 2,204,877 |
| Water taps | 13,971 |
| Sewer charges | 2,367,099 |
| Sewer taps | 14,219 |
| Sewer surcharge | 4,801 |
| Pre-treatment charges | 126,245 |
| Penalties | 82,417 |
| Other revenue | 26,025 |
| | <hr/> |
| Total operating revenues | 4,839,654 |
| Operating expenses: | |
| Water operations | 1,764,509 |
| Sewer operations | 1,067,511 |
| | <hr/> |
| Total operating expenses | 2,832,020 |
| | <hr/> |
| Operating income before depreciation, amortization, and bad debts | 2,007,634 |
| | <hr/> |
| Depreciation expense | 1,993,502 |
| Amortization expense | 1,660 |
| Bad debts | 35,000 |
| | <hr/> |
| Total depreciation, amortization, and bad debts | 2,030,162 |
| | <hr/> |
| Operating income (loss) | (22,528) |
| Non-operating revenues (expenses): | |
| Interest income | 6,183 |
| Garbage service | 597,867 |
| Economic development grant | 250,000 |
| Sales tax | 107,887 |
| Utility tax | 45,806 |
| KY River withdrawal fee | 110,547 |
| Other income | 49,685 |
| Economic development grant | (250,000) |
| Interest expense | (546,293) |
| Garbage service | (554,400) |
| Sales tax paid | (110,452) |
| Utility tax paid | (51,931) |
| KY River withdrawal fee | (159,326) |
| | <hr/> |
| Non-operating revenues (expenses), net | (504,427) |
| | <hr/> |
| Income (loss) before other revenues, expenses, gains, losses and transfers | (526,955) |
| Capital grant proceeds | 71,662 |
| | <hr/> |
| Increase (decrease) in net assets | (455,293) |
| Net position, beginning of year | 22,054,713 |
| Prior period adjustment | (194,092) |
| | <hr/> |
| Net position, end of year | <u>\$ 21,405,328</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016

| | <u>Municipal Waterworks & Sewer System</u> |
|---|--|
| Cash Flows from Operating Activities: | |
| Receipts from customers | \$ 4,765,922 |
| Payments to suppliers | (1,678,611) |
| Payments to employees | <u>(1,356,282)</u> |
| Net cash provided by (used in) operating activities | <u>1,731,029</u> |
| Cash Flows from Non-Capital Financing Activities: | |
| Security deposits | 54,616 |
| Security deposit refunds | (47,841) |
| Non-operating receipts | 1,161,792 |
| Non-operating disbursements | <u>(1,126,109)</u> |
| Net cash provided by (used in) non-capital financing activities | <u>42,458</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Capital asset purchases | (5,763,710) |
| Principal paid on bonds, leases, and loans | (1,082,972) |
| Loan proceeds | 6,492,525 |
| Interest paid on bonds, leases, and loans | (539,857) |
| Financing fees paid | (28,788) |
| Capital grant proceeds | <u>322,521</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(600,281)</u> |
| Cash Flows from Investing Activities: | |
| Purchase of investments | (2,824) |
| Interest on investments | <u>6,183</u> |
| Net cash provided by (used in) investing activities | <u>3,359</u> |
| Net increase (decrease) in cash | 1,176,565 |
| Cash, beginning of year | <u>2,885,806</u> |
| Cash, end of year | <u>\$ 4,062,371</u> |
| Cash is Classified as: | |
| Unrestricted | \$ 2,481,801 |
| Restricted | <u>1,580,570</u> |
| | <u>\$ 4,062,371</u> |

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016

| | <u>Municipal Waterworks & Sewer System</u> |
|--|--|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | |
| Operating income (loss) | \$ (22,528) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation | 1,993,502 |
| Amortization | 1,660 |
| Bad debts | 35,000 |
| Change in assets and liabilities: | |
| Accounts receivable | (73,732) |
| Due from other funds | (21,584) |
| Prepaid expenses | (16,950) |
| Accounts payable | (46,259) |
| Due to other funds | (18,377) |
| Payroll liabilities | 5,950 |
| Net pension obligation | (105,653) |
| Total adjustments | <u>1,753,557</u> |
| Net cash provided by (used in) operating activities | <u>\$ 1,731,029</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUND
June 30, 2016

| | <u>Cemetery Fund</u> |
|------------------------------------|--------------------------|
| ASSETS | |
| Cash | \$ 81,192 |
| Certificates of deposit | <u>295,222</u> |
| Total assets | <u>\$ 376,414</u> |
| | |
| LIABILITIES | |
| Due to other funds | <u>\$ 11,000</u> |
| | |
| NET POSITION | |
| Net position | <u>\$ 365,414</u> |
| Total liabilities and net position | <u>\$ 376,414</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2016

| | <u>Cemetery Fund</u> |
|---|--------------------------|
| Revenues: | |
| Perpetual care | \$ 27,400 |
| Interest | 1,066 |
| Total revenues | <u>28,466</u> |
| Expenditures: | |
| Capital outlay | <u>20,753</u> |
| Excess (deficiency) of revenues over expenditures | 7,713 |
| Other financing sources (uses): | |
| Transfers (to) from other funds | <u>(25,963)</u> |
| Excess (deficiency) of revenues over expenditures and transfers | (18,250) |
| Net position, beginning of year | <u>383,664</u> |
| Net position, end of year | <u><u>\$ 365,414</u></u> |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

INDEX

| | | |
|-------|--|----|
| I. | Summary of Significant Accounting Policies..... | 14 |
| A. | Reporting Entity..... | 14 |
| B. | Basis of Presentation..... | 14 |
| C. | Measurement Focus and Basis of Accounting..... | 16 |
| D. | Assets, Liabilities, and Net Position..... | 17 |
| E. | Revenues, Expenditures, and Expenses..... | 19 |
| II. | Stewardship, Compliance, and Accountability..... | 20 |
| A. | Insured Deposits..... | 20 |
| B. | Property Tax Calendar..... | 21 |
| C. | Expenditures Exceeding Budget..... | 21 |
| D. | Bonds and Notes Payable..... | 21 |
| E. | Security Deposits..... | 22 |
| III. | Detail Notes on Transaction Classes/Accounts..... | 22 |
| A. | Cash and Investments..... | 22 |
| B. | Restricted Assets..... | 23 |
| C. | Receivables..... | 24 |
| D. | Internal Balances..... | 24 |
| E. | Capital Assets..... | 25 |
| F. | Lease Obligations..... | 26 |
| G. | Bonds, Leases, and Loans Payable..... | 27 |
| H. | Changes in Bonds, Leases, and Loans Payable..... | 29 |
| I. | Annual Debt Service Requirements..... | 30 |
| J. | Conduit Debt..... | 30 |
| K. | Interest Expense..... | 30 |
| L. | Net Position..... | 31 |
| M. | Transfers..... | 31 |
| IV. | Pension Plan..... | 32 |
| V. | Insurance..... | 35 |
| VI. | Summary Disclosure of Significant Contingencies and Commitments..... | 35 |
| VII. | Economic Dependency..... | 36 |
| VIII. | Correction of Error..... | 36 |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harrodsburg, Kentucky (City) operates under a City Commission form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, social services, culture and recreation, planning and zoning, and general administrative services.

The basic financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

A. Reporting Entity.

The City's financial reporting entity is comprised of the following:

Primary Government: City of Harrodsburg, Kentucky

Blended Component Units: Harrodsburg Municipal Waterworks and Sewer System

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, The Financial Reporting Entity and includes all component units of which the City appointed a voting majority or an equal number of the component units' Governing Board, and the City has the ability to control the activities of the component unit or a financial benefit or burden relationship exists between the City and the component unit.

B. Basis of Presentation

Government-Wide Financial Statements. The statement of net position and statement of activities display information about the City as a whole. These statements include all funds of the City, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements. Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

The following fund types are used by the City:

Governmental Funds

General Fund. The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities, except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes. The City's Special Revenue Funds consist of the following:

- a. Municipal Aid Fund, which accounts for proceeds from the Commonwealth of Kentucky Department for Local Government to be used to maintain public roads.
- b. Tourism Development Fund, which accounts for proceeds from a restaurant tax to be used to promote and fund tourism activities within the City.
- c. Alcohol Beverage Control fund, which accounts for proceeds from a tax on the sale of alcohol beverages to be used by the police department.

Proprietary Funds

Enterprise Funds. Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's Enterprise Fund consists of the Harrodsburg Municipal Waterworks and Sewer System, which was established to account for the operation and maintenance of the City's water and sewer facilities, which are entirely or predominantly self-supported by user charges.

Internal Service Funds. Internal Service Funds are used to account for business-like activities provided by one governmental department or agency to another. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The City does not have any Internal Service Funds.

Fiduciary Funds (Not Included in Government-Wide Statements)

Trust Funds. Trust funds were established to account for assets held by the City in a trustee capacity for individuals, private organizations, and other governmental units. The City's Trust Fund consists of the Harrodsburg Cemetery Trust Fund, which was established to provide perpetual cemetery care.

Major and Non-Major Funds. The funds are further classified as major or non-major as follows:

| Fund | Fund Type | Major/ Non-Major |
|---|------------------|-----------------------------|
| General Fund | Governmental | Major |
| Municipal Aid Fund | Special Revenue | Non-Major |
| Tourism Development Fund | Special Revenue | Non-Major |
| Alcohol Beverage Control Fund | Special Revenue | Non-Major |
| Harrodsburg Municipal Waterworks and Sewer System | Enterprise | Major |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

C. 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.

Measurement Focus. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item 2 below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

1. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported.

Basis of Accounting. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, government funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period (generally 60 days) or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used.

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

Subsequent Events. Events that occur after the Statement of Net Position date, but before the financial statements, were available to be issued must be evaluated for recognition or disclosure. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

City through _____, 2016 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements,

D. Assets, Liabilities, and Net Position

Cash. For the purpose of the Statement of Net Position, cash includes all demand and savings account balances of the City on deposit with financial institutions. For the purposes of the proprietary fund, Statement of Cash Flows, cash is defined in the same manner.

Internal Balances. During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "internal balances." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Accounts Receivable. In the fund financial statements, material receivables in governmental funds include revenue accruals, such as taxes and licenses, grants, and similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions earned, but not collected within 60 days of the end of the fiscal year, are not included in the fund financial statements in accordance with the modified accrual basis of accounting. Receivables related to interest and other investment earnings are recorded using the modified accrual basis of accounting in the same manner as non-exchange transactions. Other than grant receivables, utility accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable, which total \$410,000, are based upon historical trends and the periodic aging of accounts receivable.

Inventories. Purchases of supplies in the General Fund and Municipal Waterworks and Sewer System Fund are expensed when purchased and are not inventoried and reflected in the balance sheet of either fund. Generally, supplies are purchased as needed. This departure from GAAP is not considered material to the financial statements.

Capital Assets. The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at the estimated fair value at the date of donation. Assets with an estimated life of greater than one year are capitalized.

Depreciation of all exhaustible capital assets are recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the asset's estimated useful life, using the straight-line method of depreciation. The range of estimated useful lives by type of asset for the General Fund is as follows:

| | |
|-----------------------------|---------------|
| Land improvements..... | 20 - 30 years |
| Vehicles and equipment..... | 7 - 15 years |
| Buildings..... | 30 - 40 years |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

The range of estimated useful lives by type of asset for the Municipal Waterworks and Sewer System is as follows:

| | |
|--------------------------------------|---------------|
| Water utility system..... | 10 - 99 years |
| Sewer utility system..... | 10 - 50 years |
| Water and sewer treatment plant..... | 10 - 50 years |
| Buildings..... | 40 - 50 years |
| Equipment and vehicles..... | 3 - 15 years |

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements. The City did not report its infrastructure assets in the basic financial statements as of June 30, 2004. In accordance with GASB 34, the estimated historical cost of infrastructure assets, including streets, roads, bridges, curbs, gutters, and flood walls is not required to be included. Infrastructure assets constructed after June 30, 2004 are capitalized.

Restricted Assets. Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the Statement of Net Position since their use is limited by applicable bond indentures. Some expenditures of the City may be paid with restricted and non-restricted resources. The City has determined that when both resources are available that they will use the restricted resources first.

Bond Issuance Costs. Issuance costs on the sale of the water and sewer revenue bonds are amortized on the straight-line method over the life of the bonds. These costs are reported in the proprietary fund and are accounted for the same in the government-wide and fund financial statements.

Long-Term Liabilities. The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, lease obligations, loans payable, and net pension obligation.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are recorded as revenue and payment of principal and interest reported as expenditures. The accounting for proprietary funds is reported in the fund statements in the same manner as the government-wide statements.

Compensated Absences. Unused vacation leave is converted to sick leave at the end of the calendar year. Employees must carry forward all unused sick leave at the end of the calendar year. Upon retirement, employees may utilize unused sick leave to receive additional service credit. These costs are not measurable; thus, the financial statements do not reflect a liability for compensated absences.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Plan (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Equity Classifications. Government-wide financial statements classify equity as net position and is displayed in three components:

1. ***Invested in capital assets, net of related debt*** consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. ***Restricted net position*** consists of net assets with constraints placed on the use either by:
 - a. External groups such as creditors, grantors, contributors, or laws or regulations of other governments, and
 - b. Law through constitutional provisions or enabling legislation.
3. ***Unrestricted net assets*** consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified:

1. ***Non-spendable fund balance*** includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. ***Restricted fund balance*** includes amounts that are restricted to specific purposes either (a) by externally imposed creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. ***Committed fund balance*** includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The City's highest level of decision making authority is the City Commission. Any committed fund balance would require the City Commission to adopt a resolution approving the commitment.
4. ***Assigned fund balance*** includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City's Mayor is authorized to assign the fund balance. The City has not adopted formal procedures to show that the mayor has assigned the fund balance.
5. ***Unassigned fund balance*** represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first. In addition, when expenditures could be deemed to have been expended by using committed, assigned or unassigned funds, the City has determined that the funds will be first categorized as assigned, second as committed and third as unassigned.

Proprietary fund equity is classified the same as in government-wide statements.

E. Revenues, Expenditures, and Expenses

Payroll License Fee. The City levies a payroll tax of 1% on all individuals, who work within the City limits. This tax is withheld by an employee's employer and remitted to the City monthly or quarterly. The payroll license fee is recorded in the General Fund and is used to pay the general operations of the City.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Insurance Premium Tax. The City levies an insurance premium tax of 10% on all insurance sold within the City limits. Insurance companies are required to collect this tax from policy holders and to remit this fee quarterly. The insurance premium tax is recorded in the General Fund and is used to pay the general operations of the City.

Occupational License Fee. The City levies an occupational license fee of 1% on net profits of all companies within the City limits. Companies are required to report and remit this fee quarterly or annually. The occupational license fee is recorded in the General Fund and is used to pay the general operations of the City.

Operating Revenues and Expenses. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Real and Personal Property Taxes. The City levies a tax on all real and personal property within the City in accordance with state laws. All real and personal property was taxed at \$0.0684 per \$100 of assessed value for the year ended June 30, 2016. Motor vehicles were taxed at \$0.23 per \$100 of assessed value. These taxes are collected annually and are recorded in the General Fund and are used to pay the general operations of the City.

Non-Operating Revenues and Expenses. Proprietary funds report all revenue and expenses as operating, except grant revenue, interest income, interest expense, garbage income, garbage expense, tax income, tax expense, withdrawal fee income, and withdrawal fee expense.

Expenditures/Expenses. In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. All expenses other than insurance and outside agency grants and subsidy costs have been charged as a direct cost to the program in which it benefits.

In the fund financial statements, expenditures in the Governmental Funds are reported by character and in the Proprietary Funds by operating and non-operating.

In the fund financial statements, Governmental Funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers. Permanent re-allocation of resources between funds of the City are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual Governmental Funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

- A. **Insured Deposits.** Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2016, all of the City's deposits in financial institutions, were insured or collateralized. Funds collateralized with securities held by the pledging financial institution totaled \$6,864,759.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

B. **Property Tax Calendar.** Property taxes for fiscal year 2016 were levied on October 1, 2015 on the assessed valuation of property, located in the City as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes and local deposit franchise taxes, are as follows:

| | |
|--|-------------------------|
| Due date for payment of taxes..... | October 1 |
| Face value amount payment dates..... | October 1 to October 31 |
| Delinquent date, 12% penalty | November 1 |
| Delinquent date, 1% per month penalty..... | November 1 |

C. **Expenditures Exceeding Budget.** Expenditures exceeded budget amounts as follows:

| <u>Department/Classification</u> | <u>Budget</u> | <u>Actual</u> | <u>Difference</u> |
|----------------------------------|---------------|---------------|-------------------|
| N/A | \$ | \$ | \$ |

D. **Bonds and Notes Payable.** The loan agreements relating to the bonds and notes payable issues of the Harrodsburg Municipal Waterworks and Sewer System contain some restrictions or covenants that are financial related, including covenants for required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the City's level of compliance thereon as of June 30, 2016:

1. **2013B Kentucky Rural Water (KRW) Bond Issue.** The gross incomes and revenues of the System are to be deposited into the Revenue Fund and apportioned as follows:

a. *Sinking Fund.* Monthly deposits of 1/6th of the interest and 1/12th of the principal coming due on the 2013B bonds on the next succeeding payment date are to be deposited. This fund was properly funded at June 30, 2016.

2. **Kentucky Infrastructure Authority (KIA) Note Payable.** Under terms of the loan agreements with Kentucky Infrastructure Authority, the City is required to set aside the following:

a. *Sinking Reserve.* Monthly deposits of 1/6th of the interest and 1/12th of the principal coming due on the loan on the next succeeding payment date are to be deposited under Loan A02-06. This reserve was properly funded at June 30, 2016.

b. *Repairs and Maintenance Reserve.*

1. Annual deposits of \$68,000 are to be deposited until \$680,000 has been received under Loan A 02-06. This reserve was properly funded at June 30, 2016.

2. Annual deposits of \$1,100 are to be deposited until \$11,000 has been received under Loan F 11-17. This reserve was properly funded at June 30, 2016.

3. Annual deposits of \$1,000 are to be deposited until \$10,000 has been received under Loan A 11-21. This reserve was properly funded at June 30, 2016.

4. Annual deposits of \$1,800 are to be deposited until \$18,000 has been received under Loan A 12-07. This reserve was properly funded at June 30, 2016.

5. Annual deposits of \$6,800 are to be deposited until \$68,000 has been received under Loan F 13-002. This reserve was properly funded at June 30, 2016.

6. Annual deposits of \$800 are to be deposited until \$8,000 has been received under Loan F 15-031. This reserve was not funded at June 30, 2016.

7. Annual deposits of \$3,600 are to be deposited until \$36,000 has been received under Loan A 15-046. This reserve was not funded at June 30, 2016.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

3. **Revenue Bonds.** Under terms of the revenue bond agreements, the City is required to set aside the following:
- a. *Sinking Reserve.* Monthly deposits of 1/6th of the interest and 1/12th of the principal coming due on the loan on the next succeeding payment date are to be deposited. This reserve was properly funded at June 30, 2016.
 - b. *Depreciation Reserve.* Monthly deposits of \$1,680 are to be deposited until the balance reaches \$201,600. Funds from the reserve may be withdrawn and used by the City upon appropriate certification of the City Commission for the purpose of paying the costs of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses, or for paying the cost of constructing future extensions, additions, and improvements of the system. This reserve was properly funded at June 30, 2016.
 - c. *Debt Reserve Fund.* Monthly deposits of \$3,625 are to be deposited until the balance reaches \$434,600. Funds from the reserve may be withdrawn and used by the City upon appropriate certification of the City Commission for the purpose of paying the costs of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses, or for paying the cost of constructing future extensions, additions, and improvements of the system. This reserve was properly funded at June 30, 2016.
- E. **Security Deposits.** Customers of the Harrodsburg Municipal Waterworks and Sewer System are required by ordinance to make a security deposit when they are provided water or sewer services. These deposits are required by state law to be fully funded in a separate account for the benefit of customers. At June 30, 2016 this account was properly funded.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. **Cash and Investments.** Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires, except as noted below, bank balances to be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. The Mayor and Finance Commissioner may invest funds in uncollateralized certificates of deposit subject to:
- 1. Approval of the Board of Commissioners.
 - 2. The bank or savings and loan institution being rated in one of the three highest categories by a nationally recognized rating agency.
 - 3. The amount of funds invested in uncollateralized certificates of deposit not exceeding 10% of the City's total investment portfolio.
 - 4. The maximum term to maturity of uncollateralized certificates of deposit not exceeding one year.

As of June 30, 2016, the City's funds on deposit in financial institutions, were properly insured or collateralized. Funds collateralized with securities held by pledging financial institutions totaled \$6,864,759.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 30% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2016 are as follows:

| <u>Type of Investment</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Interest Rate</u> | <u>Maturity Date</u> |
|---|-------------------|-------------------|----------------------|----------------------|
| <i>Business-Type Activities:</i> | | | | |
| Main Source Bank | | | | |
| Savings | \$ 31,021 | \$ 31,021 | 0.05 % | N/A |
| Whitaker Bank & Trust Co. | | | | |
| Certificate of Deposit | 11,976 | 11,976 | 0.20 % | 8/14/16 |
| Certificate of Deposit | 35,073 | 35,073 | 0.33 % | 8/20/17 |
| Certificate of Deposit | 178,850 | 178,850 | 0.40 % | 2/17/17 |
| Certificate of Deposit | 21,948 | 21,948 | 0.33 % | 8/20/17 |
| Certificate of Deposit | 378,606 | 378,606 | 0.33 % | 8/20/17 |
| Certificate of Deposit | 188,193 | 188,193 | 0.40 % | 9/28/16 |
| | <u>\$ 845,667</u> | <u>\$ 845,667</u> | | |

- B. **Restricted Assets.** The amounts reported as restricted assets are comprised of cash and certificates of deposit held by the City, related to their required reserves. The restricted assets as of June 30, 2016 are as follows:

| | <u>Type of Restricted Assets</u> | | |
|---|----------------------------------|------------------------------------|---------------------|
| | <u>Cash</u> | <u>Certificates of Deposit</u> | <u>Total</u> |
| <i>Governmental Activities:</i> | | | |
| Municipal aid fund | \$ 219,138 | \$ | \$ 219,138 |
| Tourism development fund | 66,196 | | 66,196 |
| | <u>\$ 285,334</u> | <u>\$</u> | <u>\$ 285,334</u> |
| <i>Business-Type Activities:</i> | | | |
| Bond sinking fund | \$ 673,126 | \$ 31,021 | \$ 704,147 |
| Note sinking fund | 62,069 | | 62,069 |
| Depreciation fund | 148,536 | 57,022 | 205,558 |
| Debt reserve fund | 111,476 | | 111,476 |
| Repairs and maintenance fund | 585,363 | 378,606 | 963,969 |
| | <u>\$ 1,580,570</u> | <u>\$ 466,649</u> | <u>\$ 2,047,219</u> |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

- C. **Receivables.** Receivables included as current assets on the Statement of Net Position, as of June 30, 2016, consists of the following:

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| <i>Taxes and Licenses:</i> | | | |
| Payroll license | \$ 607,734 | \$ | \$ 607,734 |
| Insurance license | 419,795 | | 419,795 |
| Auto taxes | 9,573 | | 9,573 |
| Net profits license | 131,664 | | 131,664 |
| Returned checks | 1,053 | | 1,053 |
| Restaurant tax | 82,935 | | 82,935 |
| | <u>1,252,754</u> | | <u>1,252,754</u> |
| <i>Intergovernmental:</i> | | | |
| Water treatment plant grant | | 71,662 | 71,662 |
| Police grants | 26,643 | | 26,643 |
| Cemetery trust fund | | 11,000 | 11,000 |
| Debt service overpayment | | 17,566 | 17,566 |
| Mercer County Planning & Zoning Commission | | 10,000 | 10,000 |
| | <u>26,643</u> | <u>110,228</u> | <u>136,871</u> |
| <i>Other:</i> | | | |
| Due from other funds | <u>(10,584)</u> | 10,584 | |
| <i>User Fees:</i> | | | |
| User fees | | 932,750 | 932,750 |
| Less allowance for doubtful accounts | | 410,000 | 410,000 |
| | | <u>522,750</u> | <u>522,750</u> |
| Total receivables | <u>\$ 1,268,813</u> | <u>\$ 643,562</u> | <u>\$ 1,912,375</u> |

- D. **Internal Balances.** The following interfund payables and receivables occurred as of June 30, 2016:

| | Due from Other Funds | Due to Other Funds |
|---------------------------------------|---------------------------------|-------------------------------|
| <i>Major Funds:</i> | | |
| General fund | \$ | \$ 10,584 |
| Municipal waterworks and sewer system | 10,584 | |
| | <u>\$ 10,584</u> | <u>\$ 10,584</u> |

The receivable due to the Municipal Waterworks and Sewer System was due to prepaid health insurance paid from the General Fund on behalf of the Municipal Waterworks and Sewer System employees for their share of the July insurance premium and the transfer of funds by the Municipal Waterworks and Sewer System for their share of the July 1, 2016 payroll.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

E. **Capital Assets.** The activity related to capital assets for the fiscal year ended June 30, 2016 was as follows:

| | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|----------------------------------|---------------------------------------|---------------------|------------------|--|
| Governmental Activities: | | | | |
| Land | \$ 602,779 | \$ 25,150 | \$ | \$ 627,929 |
| Land improvements | 1,695,878 | | | 1,695,878 |
| Vehicles and equipment | 3,313,563 | 187,747 | | 3,501,310 |
| Buildings | 2,469,399 | | | 2,469,399 |
| Infrastructure | 994,917 | | | 994,917 |
| Total cost | <u>9,076,536</u> | <u>212,897</u> | | <u>9,289,433</u> |
| Accumulated depreciation: | | | | |
| Land improvements | 972,562 | 46,315 | | 1,018,877 |
| Vehicles and equipment | 2,469,462 | 161,120 | | 2,630,582 |
| Buildings | 1,017,591 | 71,269 | | 1,088,860 |
| Infrastructure | 195,543 | 20,938 | | 216,481 |
| Total accumulated depreciation | <u>4,655,158</u> | <u>299,642</u> | | <u>4,954,800</u> |
| Total capital assets, net | <u>\$ 4,421,378</u> | <u>\$ (86,745)</u> | <u>\$</u> | <u>\$ 4,334,633</u> |
| Business-Type Activities: | | | | |
| Land | \$ 662,164 | \$ | \$ | \$ 662,164 |
| Vehicles and equipment | 3,194,164 | 34,090 | | 3,228,254 |
| Buildings | 172,985 | | | 172,985 |
| Water utility system | 12,122,208 | 30,154 | | 12,152,362 |
| Sewer utility system | 10,371,298 | | | 10,371,298 |
| Water and sewer treatment plant | 40,194,385 | 1,531 | | 40,195,916 |
| Construction in progress | 907,074 | 6,186,379 | 60,472 | 7,032,981 |
| Total cost | <u>67,624,278</u> | <u>6,252,154</u> | <u>60,472</u> | <u>73,815,960</u> |
| Accumulated depreciation: | | | | |
| Vehicles and equipment | 1,739,621 | 161,365 | | 1,900,986 |
| Buildings | 37,001 | 4,325 | | 41,326 |
| Water utility system | 5,605,196 | 478,317 | | 6,083,513 |
| Sewer utility system | 6,524,064 | 360,431 | | 6,884,495 |
| Water and sewer treatment plant | 14,910,807 | 989,064 | | 15,899,871 |
| Total accumulated depreciation | <u>28,816,689</u> | <u>1,993,502</u> | | <u>30,810,191</u> |
| Total capital assets, net | <u>\$ 38,807,589</u> | <u>\$ 4,258,652</u> | <u>\$ 60,472</u> | <u>\$ 43,005,769</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------|-------------------|
| General government | \$ 8,482 |
| Police department | 66,751 |
| Fire department | 38,538 |
| Street department | 48,262 |
| Cemeteries | 36,093 |
| Culture and recreation | 98,052 |
| Communications | 3,464 |
| Total depreciation expense | <u>\$ 299,642</u> |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

F. **Lease Obligations.** The city has entered into the following leases:

Capital Leases

1. In 2007, the City obtained \$343,897 financing for the purchase of a fire truck, which cost \$343,897. The 120-month capital lease agreement requires annual lease payments of \$43,440, including interest at 4.49% per annum. The lease was paid in full in 2016.
2. In 2008, the City obtained \$1,800,671 financing for the purchase of water meters, which cost \$1,819,122. The 15-year capital lease agreement requires quarterly payments of \$41,749, including interest at 4.3% per annum. The lease is payable through 2023.
3. In 2012, the City obtained \$35,205 financing for the purchase of a dump truck, which costs \$35,205. The 5-year capital lease agreement requires annual payments of \$7,982, including interest at 6.7% per annum. This lease was paid in full in 2016.
4. In 2013, the City obtained \$145,076 financing for the purchase of five police cruisers, which cost \$145,076. The 5-year capital lease agreement requires annual payments of \$26,592, including interest at 3.92% per annum. The lease is payable through 2018.
5. In 2013, the City obtained \$41,666 financing for the purchase of an excavator, which cost \$41,666. The 4-year capital lease agreement requires monthly payments of \$973, including interest at 6.25% per annum. The lease is payable through 2017.
6. In 2015, the City obtained \$62,430 financing for the purchase of two police cruisers, which cost \$62,430. The 5-year capital lease agreement requires annual payments of \$11,326, including interest at 3.801% per annum. The lease is payable through 2020.
7. In 2015, the City obtained \$40,214 financing for the purchase of a dump truck, which cost \$40,214. The 5-year capital lease agreement requires monthly payments of \$773, including interest at 5.95% per annum. The lease is payable through 2020.
8. In 2015, the City obtained \$42,485 financing for an excavator, which cost \$42,485. The 5-year capital lease agreement requires monthly payments of \$761, including interest at 2.14% per annum. The lease is payable through 2020.
9. In 2016, the City obtained \$105,049 financing for the purchase of four police cruisers, which cost \$128,360. the 5-year capital lease agreement requires annual payments of \$23,311, including interest at 3.567% per annum. The lease is payable through 2021.

The following is a schedule of property and equipment and outstanding liabilities relating to capital lease agreements at June 30, 2016:

Governmental Funds:

| Property Leased | Asset Cost | Accumulated Depreciation | Net Book Value | Lease Payable | | |
|-----------------|-------------------|--------------------------|-------------------|------------------|-------------------|-------------------|
| | | | | Current Portion | Long-Term Portion | Total |
| Dump truck | \$ 40,214 | \$ 8,617 | \$ 31,597 | \$ 7,857 | \$ 19,482 | \$ 27,339 |
| Police cruisers | 335,866 | 95,085 | 240,781 | 53,944 | 142,629 | 196,573 |
| Excavators | 84,151 | 18,826 | 65,325 | 11,573 | 19,312 | 30,885 |
| | <u>\$ 460,231</u> | <u>\$ 122,528</u> | <u>\$ 337,703</u> | <u>\$ 73,374</u> | <u>\$ 181,423</u> | <u>\$ 254,797</u> |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Business Activity Funds:

| Property Leased | Asset Cost | Accumulated Depreciation | Net Book Value | Lease Payable | | |
|-----------------|-------------|--------------------------|----------------|-----------------|-------------------|------------|
| | | | | Current Portion | Long-Term Portion | Total |
| Water meters | \$1,819,122 | \$ 728,321 | \$ 1,090,801 | \$ 127,382 | \$ 810,802 | \$ 938,184 |

G. **Bonds, Leases, and Loans Payable.** The City's bonds, leases, and loans payable is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities:

Governmental Activities. As of June 30, 2016, the governmental bonds, leases and loans payable consisted of the following:

Capital leases payable:

| | |
|--|----------------|
| 60-month lease for the purchase of a dump truck. The lease bears interest at 5.95% | \$ 27,339 |
| 60-month lease for the purchase of police cruisers. The lease bears interest at 3.801% | 41,306 |
| 60-month lease for the purchase of an excavator. The lease bears interest at 2.14% | 27,929 |
| 60-month lease for the purchase of police cruisers. The lease bears interest at 3.567% | 105,049 |
| 60-month lease for the purchase of police cruisers. The lease bears interest at 3.92% | 50,217 |
| 48-month lease for the purchase of an excavator. The lease bears interest at 6.25% | 2,957 |
| | <u>254,797</u> |

Loans payable:

Road resurfacing loan. The \$500,000 loan was renewed on August 25, 2015 at \$106,519 and bears interest at 3.25% to be amortized over 2 years. Principal and interest payments are \$55,911 and are to be made annually through August 10, 2017. The loan is secured by an assignment of the gas tax revenues obtained by the City during the duration of the note.

106,519

\$ 361,316

Included as liability on Statement of Net Position:

| | |
|-----------------------|-------------------|
| Current liability | \$ 125,823 |
| Non-current liability | <u>235,493</u> |
| | <u>\$ 361,316</u> |

Business-Type Activities. As of June 30, 2016, the proprietary fund bonds, leases, and loans payable consisted of the following:

Capital leases payable:

15-year lease for the purchase of water meters. The lease bears interest at 4.3%. \$ 938,184

Loans payable:

Loan A02-06 for system improvements. The uncollateralized \$3,336,516 loan from Kentucky Infrastructure Authority bears interest at 1.0%. The terms of the loan require the loan to be amortized over 20 years. Principal and interest payments of approximately \$93,000 are to be paid semi-annually through December 1, 2023. 1,322,009

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

| | |
|---|-----------|
| <p>Loan A-12-07 for pump station upgrades. The uncollateralized \$706,000 loan from Kentucky Infrastructure Authority bears interest at 1.0% and is due 20 years from the date the loan is closed. Principal and interest of approximately \$18,000 are to be paid semi-annually through June 1, 2035</p> | 606,550 |
| <p>Loan F11-17 for water main improvements. The uncollateralized \$336,700 loan from Kentucky Infrastructure Authority bears interest at 1.0%. and is due 20 years from the date the loan is closed. Principal and interest payments of approximately \$9,500 are to be paid semi-annually through December 1, 2033.</p> | 298,193 |
| <p>Loan A11-21 for sewer rehabilitation project. The uncollateralized \$376,650 loan from Kentucky Infrastructure Authority bears interest at 1.0% and is due 20 years from the date the loan is closed. Principal and interest payments of approximately \$10,000 are to be paid semi-annually through December 1, 2033.</p> | 333,574 |
| <p>Loan F13-002 is for water distribution improvements, north main water storage tank improvements. The uncollateralized \$2,433,080 loan from Kentucky Infrastructure Authority bears interest at 1.75% and is due 20 years from the date the loan is closed. Principal and interest payments of approximately \$75,000 are to be paid semi-annually through December 1, 2035.</p> | 2,380,360 |
| <p>Loan A15-074 is for the expansion of the City's waste water treatment plant. The uncollateralized \$10,000,000 loan from Kentucky Infrastructure Authority bears interest at .75% and is due 20 years from the date the loan is closed. The annual payment of principal and interest has yet to be determined and will commence within 12 months from initiation of operation. Interest is to begin accruing on the draws at the time of the first draw.</p> | 3,379,187 |
| <p>Loan F15-031 is for the College and Chestnut Street water lines project. The uncollateralized \$326,660 loan from Kentucky Infrastructure Authority bears interest at .75% and is due 20 years from the date the loan is closed. The annual payment of principal and interest has yet to be determined and will commence within 12 months from initiation of operation. Interest is to begin accruing on the draws at the time of the first draw.</p> | 171,936 |
| <p>Loan A15-046 is for sewer line rehabilitation. The uncollateralized \$1,420,000 loan from Kentucky Infrastructure Authority bears interest at .75% and is due 20 years from the date the loan is closed. The annual payment of principal and interest has yet to be determined and will commence within 12 months from initiation of operation. Interest is to begin accruing on the draws at the time of the first draw.</p> | 1,181,484 |
| <p>Loan from Whitaker Bank to provide interim financing for the expansion of the waste water treatment plant. The uncollateralized \$8,840,000 loan bears interest at 3.0% and is due December 1, 2018. Interest is payable quarterly based on the amount of funds that has been drawn on the loan.</p> | 1,534,550 |
| <i>Bonds payable:</i> | |
| <p>Bonds were issued in 2013 to pay off the remaining balances of the 2004 bond issue. The bonds bear interest at 2.3%. Principal payments are paid annually and interest payments are paid semi-annually through January 2021.</p> | 695,000 |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

| | |
|---|---------------|
| Bonds were issued in 2006 for the construction of extensions, additions, and improvements to the combined and consolidated water and sewer system. The bonds bear interest at 4.5%. Principal is paid annually through December 2043, and interest is paid semi-annually. | 971,000 |
| Bonds were issued in 2006 for the construction of extensions, additions, and improvements to the combined and consolidated water and sewer system. The bonds bear interest at 4.125%. Principal is paid annually through December 2044, and interest is paid semi-annually. | 2,180,500 |
| Bonds were issued in 2012 for the construction of extensions, additions and improvements to the existing waterworks system. The bonds bear interest at 2.75%. Principal is paid annually through December 2050, and interest is paid semi-annually. | 7,485,500 |
| Series 2014 A & B bonds were issued in 2015 to finance the wastewater treatment plant. The bonds bear interest at 3.25%. Principal is paid annually through December 2053 and interest is paid semi-annually. | 1,744,000 |
| | \$ 25,222,027 |

Included as liability on Statement of Net Position:

| | Leases Payable | Loans Payable | Bonds Payable | Total |
|---|---------------------------|--------------------------|--------------------------|---------------|
| Current liability | \$ 127,382 | \$ | \$ | \$ 127,382 |
| Current liability payable from restricted resources | | 336,355 | 362,000 | 698,355 |
| Non-current liability | 810,802 | 10,871,488 | 12,714,000 | 24,396,290 |
| | \$ 938,184 | \$ 11,207,843 | \$ 13,076,000 | \$ 25,222,027 |

H. **Changes in Bonds, Leases, and Loans Payable.** The following is a summary of changes in bonds, leases, and loans payable for the year ended June 30, 2016:

| Type of Debt | Balance July 1, 2015 | Proceeds | Payments | Balance June 30, 2016 | Amounts Due Within One Year |
|----------------------------------|---------------------------------|-----------------|-----------------|----------------------------------|--|
| Governmental Activities: | | | | | |
| Capital leases payable | \$ 258,649 | \$ 105,049 | \$ 108,902 | \$ 254,796 | \$ 73,374 |
| Loans payable | 256,520 | | 150,000 | 106,520 | 52,449 |
| Total governmental activities | \$ 515,169 | \$ 105,049 | \$ 258,902 | \$ 361,316 | \$ 125,823 |
| Business-Type Activities: | | | | | |
| Bonds payable | \$ 13,402,500 | | \$ 326,500 | \$ 13,076,000 | \$ 362,000 |
| Capital leases payable | 1,060,056 | | 121,872 | 938,184 | 127,382 |
| Loans payable | 5,349,919 | 6,492,524 | 634,600 | 11,207,843 | 336,355 |
| Total business-type activities | \$ 19,812,475 | \$ 6,492,524 | \$ 1,082,972 | \$ 25,222,027 | \$ 825,737 |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

- I. **Annual Debt Service Requirements.** The annual debt service requirements to maturity, including principal and interest, for bonds, leases, and loans payable as of June 30, 2016 are as follows:

| | Year Ending June 30 | Principal | Interest | Total |
|---------------------------------|--------------------------------|----------------------|---------------------|----------------------|
| <i>Governmental Activities:</i> | | | | |
| 2017 | \$ | 125,824 | \$ 12,717 | \$ 138,541 |
| 2018 | | 127,191 | 8,348 | 135,539 |
| 2019 | | 49,336 | 3,702 | 53,038 |
| 2020 | | 36,458 | 2,019 | 38,477 |
| 2021 | | 22,507 | 803 | 23,310 |
| | | <u>\$ 361,316</u> | <u>\$ 27,589</u> | <u>\$ 388,905</u> |
| <i>Proprietary Activities:</i> | | | | |
| 2017 | \$ | 825,737 | \$ 520,933 | \$ 1,346,670 |
| 2018 | | 847,648 | 500,018 | 1,347,666 |
| 2019 | | 2,399,926 | 478,420 | 2,878,346 |
| 2020 | | 888,933 | 456,228 | 1,345,161 |
| 2021 | | 747,830 | 433,298 | 1,181,128 |
| 2021 - 2026 | | 2,878,795 | 1,907,400 | 4,786,195 |
| 2027 - 2031 | | 2,501,843 | 1,582,745 | 4,084,588 |
| 2032 - 2036 | | 2,667,218 | 1,222,343 | 3,889,561 |
| 2037 - 2041 | | 2,163,500 | 858,026 | 3,021,526 |
| 2042 - 2046 | | 2,115,000 | 488,174 | 2,603,174 |
| 2047 - 2051 | | 1,895,500 | 214,510 | 2,110,010 |
| 2052 - 2055 | | 557,500 | 14,349 | 571,849 |
| | | <u>\$ 20,489,430</u> | <u>\$ 8,676,444</u> | <u>\$ 29,165,874</u> |

Kentucky Infrastructure Authority notes A15-074, F15-031 and A15-046 totaling \$4,732,607 are not included in the proprietary activities debt service schedule above since the due dates, and payment amounts have not yet been determined.

- J. **Conduit Debt.** Industrial Revenue Bonds have been issued through the City to assist various private enterprises in construction of manufacturing plants and educational facilities. These bonds do not constitute an indebtedness or pledge of faith and credit by the City. The balance outstanding at June 30, 2016 for Industrial Revenue Bonds is not available.
- K. **Interest Expense.** Interest expense has been included in the Statement of Activities in the following functions/programs:

Governmental Activities:

| | |
|---------------------|---------------|
| Police department | \$ 4,825 |
| Fire department | 1,869 |
| Street department | 7,275 |
| Cemetery department | 619 |
| Parks department | 644 |
| | <u>15,232</u> |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Proprietary Activities:

| | |
|------------------------|-------------------|
| Water | 273,147 |
| Sewer | <u>273,146</u> |
| | <u>546,293</u> |
| Total interest expense | <u>\$ 561,525</u> |

Total interest capitalized in the proprietary fund was \$22,085.

L. **Net Position.** Net position at June 30, 2016 is identified as follows:

Governmental Funds:

Restricted for:

| | |
|------------------------------|-------------------|
| Police department | \$ 1,900 |
| Roads | 219,138 |
| Tourism | <u>149,131</u> |
| Total net assets, restricted | <u>\$ 370,169</u> |

Proprietary Funds:

| | |
|------------------------------|---------------------|
| Bond sinking fund | \$ 704,147 |
| Note sinking fund | 62,069 |
| Debt reserve fund | 111,476 |
| Depreciation fund | 205,558 |
| Repairs and maintenance fund | <u>963,969</u> |
| Total net assets, restricted | <u>\$ 2,047,219</u> |

M. **Transfers.** The following operating transfers were made during fiscal year 2016:

| | Transfers In | Transfers Out |
|--------------------|-------------------------|--------------------------|
| Major Funds: | | |
| General fund | \$ 25,963 | \$ 512,484 |
| Non-major Funds: | | |
| Municipal aid fund | 512,484 | |
| Fiduciary Fund: | | |
| Cemetery fund | | <u>25,963</u> |
| | <u>\$ 538,447</u> | <u>\$ 538,447</u> |

The transfer of \$25,963 to the General Fund from the Cemetery Fund represents interest earnings on cemetery certificates of deposit, which was used for the maintenance of the cemetery and the transfer of capital assets from the Cemetery Fund to the General Fund.

\$512,484 was transferred from the General Fund to the Municipal Aid Fund to provide resources for the maintenance of roads and the payment of debt service.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

IV. PENSION PLAN

The City is a participating employer of the County Employees Retirement Systems (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements, which may be downloaded from the Kentucky Retirement System's website.

Plan Description. CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions. For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8% for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.67% of each employee's wages for non-hazardous job classifications and 34.31% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% for non-hazardous job classifications and 8% for hazardous job classifications of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit and hazardous job classifications receive 7.5% employer pay credit.

The City contributed \$616,039 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$424,347 to the CERS pension fund and \$191,692 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources. At June 30, 2016, the City reported a liability of \$4,591,500 in the governmental activities fund and \$1,273,616 in the business-type activities fund for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities,

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

actuarially determined. At June 30, 2015, the City's proportion was .096361% for non-hazardous job classifications and .112177% for hazardous job classifications.

For the year ended June 30, 2016, the City recognized pension expense of \$450,901 in the governmental activities fund and \$197,647 in the business-type activities fund. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|---|--|--|--|--|
| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual results | \$ 53,422 | \$ | \$ 18,411 | \$ |
| Changes of assumptions | 421,413 | | 145,183 | |
| Net difference between projected and actual earnings on Plan investments | 35,663 | | 12,290 | |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 233,393 | 419,394 | 80,434 | |
| City contributions subsequent to the measurement date | <u>320,920</u> | | <u>108,129</u> | |
| Total | <u>\$ 1,064,811</u> | <u>\$ 419,394</u> | <u>\$ 364,447</u> | <u>\$</u> |

The \$320,920 and \$108,129 of deferred outflows of resources in the governmental activities funds and business-type activities funds, respectively, resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Total</u> |
|----------------------|------------------------------------|--|-------------------|
| Year ending June 30, | | | |
| 2017 | \$ 145,457 | \$ 87,380 | \$ 232,837 |
| 2018 | 145,457 | 87,380 | 232,837 |
| 2019 | 34,240 | 49,051 | 83,291 |
| 2020 | <u>(657)</u> | <u>32,507</u> | <u>31,850</u> |
| Total | <u>\$ 324,497</u> | <u>\$ 256,318</u> | <u>\$ 580,815</u> |

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.25% |
| Salary increases | 4.0%, average, including inflation |
| Investment rate of return | 7.50%, net of Plan investment expense, including inflation |

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

The mortality table used for active members is RP-2000 combined mortality table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 combined mortality table projected with scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 combined disabled mortality table projected with scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2017. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Nominal Real Rate of Return |
|--|-------------------|---------------------------------------|
| Combined Equity | 44 % | 5.40 % |
| Combined Fixed Income | 19 % | 1.50 % |
| Real Return (Diversified Inflation Strategies) | 10 % | 3.50 % |
| Real Estate | 5 % | 4.50 % |
| Absolute Return (Diversified Hedge Funds) | 10 % | 4.25 % |
| Private Equity | 10 % | 8.50 % |
| Cash Equivalent | 2 % | (0.25)% |
| Total | <u>100 %</u> | |

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. 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 28-year amortization period of the unfunded actuarial accrued liability.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

| | Discount Rate | City's Proportionate Share of Net Pension Liability |
|-----------------------|--------------------------|--|
| 1% decrease | 6.50 % | \$ 7,493,416 |
| Current discount rate | 7.50 % | 5,865,116 |
| 1% increase | 8.50 % | 4,484,064 |

V. INSURANCE

The City participates in a public entity risk pool through the Kentucky Municipal Risk Management Association ("Association"). Insurance coverage under this plan transfers the risk of loss to the Association. However, should the Association's reserves become inadequate, they could charge a special assessment to the City and other participating entities in the Association. The Association maintains re-insurance for claims in excess of \$250,000. Coverage amounts are as follows:

| Type of Coverage | Insured Amount | Deductible |
|----------------------------|---------------------------|-------------------|
| General liability | \$ 5,000,000 | \$ |
| Public officials liability | 5,000,000 | 10,000 |
| Law enforcement liability | 5,000,000 | |
| Auto liability | 2,000,000 | |
| Workers compensation | 4,000,000 | |
| Property | 38,332,844 | 1,000 |
| Equipment | 1,280,895 | 500 |

VI. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

During the ordinary course of its operations, the City is a party to various claims, legal actions, and complaints. In the opinion of the City's management and legal counsel, these matters are not anticipated to have a material impact on the City. No liability has been recorded at June 30, 2016 related to these potential liabilities.

The City has committed to purchase a fire truck at a cost of \$398,996. A loan commitment has been received to borrow the purchase price and repay this loan over seven years.

The City has entered into contracts for the design and construction of various projects for the Municipal Waterworks & Sewer System. The total amount of contracts in place at June 30, 2016 is \$17,873,720. The balance remaining on the contracts at June 30, 2016 is \$12,704,074

The Municipal Waterworks & Sewer System has obtained additional financing from the Kentucky Infrastructure Authority totaling \$1,566,370 under a loan agreement using revolving loan funds. Funding from this loan is for the Sewer Rehabilitation 2015 Project and had not been requested at June 30, 2016

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

The Municipal Waterworks & Sewer System has committed to issuing bonds and obtaining notes for construction projects totaling \$18,840,000. This additional financing will be used to construct the waste water treatment plant.

The City has entered into a loan guaranty agreement whereby the City has pledged that in the event that the Wilderness Trace Family Young Men's Christian Association Inc. defaults on a certain \$325,000 loan, the City guarantee's payment of \$275,000 toward the unpaid principal and interest. This guarantee is in effect until March 17, 2020.

VII. ECONOMIC DEPENDENCY

General Government Revenue. The City collected \$1,838,000, representing 74%, of its payroll license fees and 32% of the total revenues of the General Fund from ten employers within the City limits.

Municipal Waterworks and Sewer System Revenue. The billings to fifteen customers totaled \$2,685,000 which represented 55% of the System's operating revenues.

VIII. CORRECTION OF ERROR

The beginning net position of the Municipal Waterworks and Sewer System was reduced by \$194,092. This reduction was due to reclassifying grant income to notes payable.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information includes financial information and disclosures that are required by the GASB, but are not considered a part of the basic financial statements. Such information includes

- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Contributions
- Notes to Required Supplementary Information on Budgetary Accounting and Control
- Budgetary Comparison Schedules

CITY OF HARRODSBURG, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ending June 30, 2016

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City annually prepares a budget under the provisions of Kentucky Revised Statute (KRS) 91A.030. In accordance with this Statute, the following process is used to adopt the annual budget:

- A. The budget proposal is the responsibility of the Mayor of the City and shall be submitted to the legislative body not later than thirty days prior to the beginning of the fiscal year it covers.
- B. The legislative body shall adopt a budget ordinance making appropriations for the fiscal year in such sums as the legislative body finds sufficient and proper, whether greater or less than the sums recommended in the budget proposal. The budget ordinance may be in any form that the legislative body finds most efficient in enabling it to make the necessary fiscal policy decisions.
- C. No budget ordinance shall be adopted which provides for appropriations to exceed revenues in any one fiscal year in violation of Section 157 of the Kentucky Constitution.
- D. The City legislative body may amend the budget ordinance after the ordinances' adoption if the amended ordinance continues to satisfy the requirements of Section 91A.030 of the KRS.
- E. Immediately following the adoption of an annual budget, the clerk shall cause a summary of the budget or the text of the budget ordinance to be advertised by publication in a newspaper.

Budgetary Accounting

The annual operating budget of governmental funds are prepared and presented on the modified accrual basis of accounting.

The City does not use an encumbrance accounting system; thus, the budgetary and GAAP presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Budgetary and Actual are the same.

CITY OF HARRODSBURG, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Last Three Fiscal Years*

| | 2016 | | 2015 | | 2014 | |
|--|---------------|--------------|---------------|--------------|---------------|--------------|
| | Non-Hazardous | Hazardous | Non-Hazardous | Hazardous | Non-Hazardous | Hazardous |
| City's proportion of the net pension liability | 0.096361% | 0.112177% | 0.084193% | 0.152137% | 0.084193% | 0.152137% |
| City's proportionate share of the net pension liability (asset) | \$ 4,143,084 | \$ 1,722,032 | \$ 3,244,376 | \$ 1,201,824 | \$ 3,083,695 | \$ 2,033,902 |
| City's covered employee payroll | 2,411,969 | 505,362 | 2,232,126 | 581,643 | 1,912,164 | 753,520 |
| City's share of the net pension liability (asset) as a percentage of its covered payroll | 171.77% | 340.75% | 145.35% | 206.63% | 161.27% | 269.92% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.97% | 57.52% | 66.80% | 63.46% | 61.22% | 57.74% |

Notes. There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the period ending June 30, 2015.

1. The assumed investment rate of return was decreased from 7.75% to 7.50%.
2. The assumed rate of inflation was reduced from 3.50% to 3.25%.
3. The assumed rate of wage inflation was reduced from 1.00% to .75%.
4. Payroll growth assumption was reduced from 4.50% to 4.00%.
5. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
6. For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
7. The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

*The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

CITY OF HARRODSBURG, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
Last Four Fiscal Years*

| | 2016 | | 2015 | | 2014 | | 2013 | |
|--|---------------|------------|---------------|------------|---------------|------------|---------------|------------|
| | Non-Hazardous | Hazardous | Non-Hazardous | Hazardous | Non-Hazardous | Hazardous | Non-Hazardous | Hazardous |
| Contractually required employer contribution | \$ 444,236 | \$ 171,803 | \$ 414,209 | \$ 200,220 | \$ 364,902 | \$ 275,121 | \$ 359,339 | \$ 294,336 |
| Contributions relative to contractually required employer contribution | 444,236 | 171,803 | 414,209 | 200,220 | 364,902 | 275,121 | 359,339 | 294,336 |
| Contribution deficiency (excess) | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| City's covered employee payroll | \$ 2,411,969 | \$ 505,362 | \$ 2,232,126 | \$ 581,643 | \$ 1,912,164 | \$ 753,520 | \$ 1,838,053 | \$ 782,810 |
| Employer contributions as a percentage of covered-employee payroll | 18.42% | 34.00% | 18.56% | 34.42% | 19.08% | 36.51% | 19.55% | 37.60% |

Notes. There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the period ending June 30, 2015.

- 1 The assumed investment rate of return was decreased from 7.75% to 7.50%.
- 2 The assumed rate of inflation was reduced from 3.50% to 3.25%.
- 3 The assumed rate of wage inflation was reduced from 1.00% to .75%.
- 4 Payroll growth assumption was reduced from 4.50% to 4.00%.
- 5 The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- 6 For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- 7 The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|---------------------------|---------------------|---|
| Revenues: | | | | |
| Taxes | \$ 1,748,284 | \$ 1,748,284 | \$ 1,832,764 | \$ 84,480 |
| Licenses, permits, and fees | 3,556,933 | 3,556,933 | 3,308,038 | (248,895) |
| Intergovernmental revenue | 418,515 | 418,515 | 355,993 | (62,522) |
| Service charges | 120,883 | 120,883 | 128,720 | 7,837 |
| Other | 413,263 | 413,263 | 73,208 | (340,055) |
| Total revenues | <u>6,257,878</u> | <u>6,257,878</u> | <u>5,698,723</u> | <u>(559,155)</u> |
| Expenditures: | | | | |
| General government | 499,363 | 499,363 | 474,389 | 24,974 |
| Police department | 1,705,721 | 1,705,721 | 1,628,384 | 77,337 |
| Fire department | 1,422,037 | 1,422,037 | 1,151,772 | 270,265 |
| Street department | 835,049 | 835,049 | 671,084 | 163,965 |
| Cemeteries | 477,524 | 477,524 | 382,202 | 95,322 |
| Culture and recreation | 291,318 | 291,318 | 204,271 | 87,047 |
| Communications | 450,866 | 450,866 | 408,420 | 42,446 |
| Non-departmentalized | 576,000 | 576,000 | 547,359 | 28,641 |
| Total expenditures | <u>6,257,878</u> | <u>6,257,878</u> | <u>5,467,881</u> | <u>789,997</u> |
| Excess (deficiency) of revenues over expenditures before other financing sources | | | <u>230,842</u> | <u>230,842</u> |
| Other financing sources (uses): | | | | |
| Transfers (to) from other funds | | | (486,521) | (486,521) |
| Lease proceeds | | | 105,049 | 105,049 |
| Total other financing sources (uses) | | | <u>(381,472)</u> | <u>(381,472)</u> |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | | | (150,630) | (150,630) |
| Fund balance, beginning of year | <u>3,516,624</u> | <u>3,516,624</u> | <u>3,516,624</u> | |
| Fund balance, end of year | <u>\$ 3,516,624</u> | <u>\$ 3,516,624</u> | <u>\$ 3,365,994</u> | <u>\$ (150,630)</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|-------------------------------------|--------------------|-------------------|------------------|--|
| Taxes: | | | | |
| Real property | \$ 303,277 | \$ 303,277 | \$ 307,842 | \$ 4,565 |
| Motor vehicle | 91,800 | 91,800 | 97,317 | 5,517 |
| Tangible personal property | 44,924 | 44,924 | 35,759 | (9,165) |
| Public service company | 10,000 | 10,000 | 10,252 | 252 |
| Delinquent | 1,200 | 1,200 | 564 | (636) |
| Insurance premium | 1,223,000 | 1,223,000 | 1,317,147 | 94,147 |
| Bank deposits | 55,612 | 55,612 | 43,495 | (12,117) |
| Payments in lieu of taxes | 18,471 | 18,471 | 20,388 | 1,917 |
| | <u>1,748,284</u> | <u>1,748,284</u> | <u>1,832,764</u> | <u>84,480</u> |
| Licenses, permits, and fees: | | | | |
| Payroll license fees | 2,301,995 | 2,301,995 | 2,496,771 | 194,776 |
| Net profits license fees | 270,000 | 270,000 | 287,853 | 17,853 |
| Business license fees | 18,992 | 18,992 | 18,900 | (92) |
| Street license fees | 1,300 | 1,300 | 1,575 | 275 |
| Franchise fee - cable television | 56,000 | 56,000 | 56,757 | 757 |
| Franchise fee - electric | 783,996 | 783,996 | 344,305 | (439,691) |
| Franchise fee - natural gas | 88,000 | 88,000 | 70,046 | (17,954) |
| Alcohol fees | 36,650 | 36,650 | 31,831 | (4,819) |
| | <u>3,556,933</u> | <u>3,556,933</u> | <u>3,308,038</u> | <u>(248,895)</u> |
| Intergovernmental revenue: | | | | |
| Police pay incentive | 63,245 | 63,245 | 63,616 | 371 |
| Firefighters pay incentive | 49,600 | 49,600 | 59,478 | 9,878 |
| Police court fines | 15,208 | 15,208 | 15,423 | 215 |
| 911 reimbursements | 202,100 | 202,100 | 117,267 | (84,833) |
| Mercer County Fiscal Court | 25,000 | 25,000 | 18,750 | (6,250) |
| Mercer County Fire District | 4,000 | 4,000 | 4,000 | |
| Burgin contribution, communications | 2,803 | 2,803 | 2,803 | |
| Other grants and subsidies | 56,559 | 56,559 | 74,656 | 18,097 |
| | <u>418,515</u> | <u>418,515</u> | <u>355,993</u> | <u>(62,522)</u> |

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-----------------------------|----------------------------|---------------------------|---------------------|---|
| Service charges: | | | | |
| Rental income | 17,500 | 17,500 | 17,303 | (197) |
| Police arrest fees | 5,000 | 5,000 | 4,605 | (395) |
| Interment, Spring Hill | 68,200 | 68,200 | 66,350 | (1,850) |
| Lots sold, Spring Hill | 21,333 | 21,333 | 33,750 | 12,417 |
| Interment, Maple Grove | 3,850 | 3,850 | 2,400 | (1,450) |
| Lots sold, Maple Grove | 1,000 | 1,000 | 750 | (250) |
| Monument bases | 4,000 | 4,000 | 3,562 | (438) |
| | <u>120,883</u> | <u>120,883</u> | <u>128,720</u> | <u>7,837</u> |
| Other: | | | | |
| Parking fines | 1,000 | 1,000 | 100 | (900) |
| Penalties and interest | 19,163 | 19,163 | 11,848 | (7,315) |
| Interest earned | 3,000 | 3,000 | 2,573 | (427) |
| Drug investigation receipts | 6,100 | 6,100 | 16,207 | 10,107 |
| Sale of surplus property | 3,500 | 3,500 | 7,044 | 3,544 |
| Insurance claim proceeds | | | 3,625 | 3,625 |
| Miscellaneous | 380,500 | 380,500 | 31,811 | (348,689) |
| | <u>413,263</u> | <u>413,263</u> | <u>73,208</u> | <u>(340,055)</u> |
| Total revenues | <u>\$ 6,257,878</u> | <u>\$ 6,257,878</u> | <u>\$ 5,698,723</u> | <u>\$ (559,155)</u> |

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------|--------------------|-------------------|------------------|--|
| General government: | | | | |
| Salaries and wages | \$ 294,119 | \$ 294,119 | \$ 284,102 | \$ 10,017 |
| Fringe benefits | 87,891 | 87,891 | 78,025 | 9,866 |
| Contractual services | 67,400 | 67,400 | 62,240 | 5,160 |
| Materials and supplies | 21,500 | 21,500 | 18,846 | 2,654 |
| Other costs | 17,200 | 17,200 | 19,930 | (2,730) |
| Capital outlay | 11,253 | 11,253 | 11,246 | 7 |
| | <u>499,363</u> | <u>499,363</u> | <u>474,389</u> | <u>24,974</u> |
| Police department: | | | | |
| Salaries and wages | 872,653 | 872,653 | 835,476 | 37,177 |
| Fringe benefits | 438,421 | 438,421 | 353,189 | 85,232 |
| Contractual services | 118,463 | 118,463 | 102,094 | 16,369 |
| Materials and supplies | 158,784 | 158,784 | 123,404 | 35,380 |
| Other costs | 41,000 | 41,000 | 33,247 | 7,753 |
| Capital outlay | 14,400 | 14,400 | 143,055 | (128,655) |
| Debt service | 62,000 | 62,000 | 37,919 | 24,081 |
| | <u>1,705,721</u> | <u>1,705,721</u> | <u>1,628,384</u> | <u>77,337</u> |
| Fire department: | | | | |
| Salaries and wages | 770,257 | 770,257 | 649,685 | 120,572 |
| Fringe benefits | 386,930 | 386,930 | 298,776 | 88,154 |
| Contractual services | 89,200 | 89,200 | 65,267 | 23,933 |
| Materials and supplies | 75,500 | 75,500 | 58,714 | 16,786 |
| Other costs | 26,750 | 26,750 | 26,580 | 170 |
| Capital outlay | 30,000 | 30,000 | 9,310 | 20,690 |
| Debt service | 43,400 | 43,400 | 43,440 | (40) |
| | <u>1,422,037</u> | <u>1,422,037</u> | <u>1,151,772</u> | <u>270,265</u> |
| Street department: | | | | |
| Salaries and wages | 290,636 | 290,636 | 239,668 | 50,968 |
| Fringe benefits | 136,763 | 136,763 | 108,472 | 28,291 |
| Contractual services | 275,300 | 275,300 | 240,403 | 34,897 |
| Materials and supplies | 70,400 | 70,400 | 38,457 | 31,943 |
| Other costs | 18,750 | 18,750 | 10,004 | 8,746 |
| Capital outlay | 43,200 | 43,200 | 15,678 | 27,522 |
| Debt service | | | 18,402 | (18,402) |
| | <u>835,049</u> | <u>835,049</u> | <u>671,084</u> | <u>163,965</u> |

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|---------------------|---------------------|---------------------|--|
| Cemeteries: | | | | |
| Salaries and wages | 202,609 | 202,609 | 162,400 | 40,209 |
| Fringe benefits | 108,865 | 108,865 | 67,828 | 41,037 |
| Contractual services | 84,350 | 84,350 | 74,251 | 10,099 |
| Materials and supplies | 48,800 | 48,800 | 35,026 | 13,774 |
| Other costs | 7,200 | 7,200 | 5,969 | 1,231 |
| Capital outlay | 14,000 | 14,000 | 25,049 | (11,049) |
| Debt service | 11,700 | 11,700 | 11,679 | 21 |
| | <u>477,524</u> | <u>477,524</u> | <u>382,202</u> | <u>95,322</u> |
| Culture and recreation: | | | | |
| Salaries and wages | 92,471 | 92,471 | 64,917 | 27,554 |
| Fringe benefits | 47,022 | 47,022 | 28,975 | 18,047 |
| Contractual services | 96,300 | 96,300 | 76,438 | 19,862 |
| Materials and supplies | 40,650 | 40,650 | 12,357 | 28,293 |
| Other costs | 3,200 | 3,200 | 6,902 | (3,702) |
| Capital outlay | 3,675 | 3,675 | 6,700 | (3,025) |
| Debt service | 8,000 | 8,000 | 7,982 | 18 |
| | <u>291,318</u> | <u>291,318</u> | <u>204,271</u> | <u>87,047</u> |
| Communications: | | | | |
| Salaries and wages | 250,633 | 250,633 | 229,535 | 21,098 |
| Fringe benefits | 121,933 | 121,933 | 101,846 | 20,087 |
| Contractual services | 10,950 | 10,950 | 13,677 | (2,727) |
| Materials and supplies | 21,100 | 21,100 | 16,167 | 4,933 |
| Other costs | 4,250 | 4,250 | 4,154 | 96 |
| Capital outlay | 42,000 | 42,000 | 43,041 | (1,041) |
| | <u>450,866</u> | <u>450,866</u> | <u>408,420</u> | <u>42,446</u> |
| Non-departmentalized: | | | | |
| Insurance | 270,000 | 270,000 | 272,085 | (2,085) |
| Grants and subsidies | 306,000 | 306,000 | 275,274 | 30,726 |
| | <u>576,000</u> | <u>576,000</u> | <u>547,359</u> | <u>28,641</u> |
| Total expenditures | <u>\$ 6,257,878</u> | <u>\$ 6,257,878</u> | <u>\$ 5,467,881</u> | <u>\$ 789,997</u> |

OTHER SUPPLEMENTARY INFORMATION

Other Supplementary Information includes financial statements and schedules that are not required by the GASB, and are not considered a part of the basic financial statements, but are presented for additional analysis.

Such statements and schedules include:

- Combining Statements - Non-Major Funds
- Combining Statements - Proprietary Fund

NON-MAJOR FUNDS

CITY OF HARRODSBURG, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
June 30, 2016

| | <u>Municipal Aid Fund</u> | <u>Tourism Development Fund</u> | <u>Alcohol Beverage Control Fund</u> | <u>Total</u> |
|----------------------------|-------------------------------|---|--|-------------------|
| ASSETS | | | | |
| Cash | \$ 219,138 | \$ 66,196 | \$ | \$ 285,334 |
| Accounts receivable, taxes | | 82,935 | | 82,935 |
| Due from other funds | | | 1,900 | 1,900 |
| | <u>\$ 219,138</u> | <u>\$ 149,131</u> | <u>\$ 1,900</u> | <u>\$ 370,169</u> |
| Total assets | <u>\$ 219,138</u> | <u>\$ 149,131</u> | <u>\$ 1,900</u> | <u>\$ 370,169</u> |
| FUND BALANCE | | | | |
| Fund balance: | | | | |
| Restricted for: | | | | |
| Roads | 219,138 | | | 219,138 |
| Tourism | | 149,131 | | 149,131 |
| Police | | | 1,900 | 1,900 |
| | <u>\$ 219,138</u> | <u>\$ 149,131</u> | <u>\$ 1,900</u> | <u>\$ 370,169</u> |
| Total fund balance | <u>\$ 219,138</u> | <u>\$ 149,131</u> | <u>\$ 1,900</u> | <u>\$ 370,169</u> |

CITY OF HARRODSBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR FUNDS
For the Year Ended June 30, 2016

| | <u>Municipal Aid Fund</u> | <u>Tourism Development Fund</u> | <u>Alcohol Beverage Control Fund</u> | <u>Total</u> |
|--|-------------------------------|---|--|-------------------|
| Revenues: | | | | |
| Intergovernmental revenue | \$ 166,026 | \$ | \$ | \$ 166,026 |
| Restaurant tax collections | | 321,666 | | 321,666 |
| Alcohol license fee | | | 1,900 | 1,900 |
| Interest income | 139 | 54 | | 193 |
| Total revenues | <u>166,165</u> | <u>321,720</u> | <u>1,900</u> | <u>489,785</u> |
| Expenditures: | | | | |
| Grants and subsidies | | 297,631 | | 297,631 |
| Street department: | | | | |
| Paving | 384,831 | | | 384,831 |
| Materials and supplies | 48,734 | | | 48,734 |
| Debt service | 161,508 | | | 161,508 |
| Total expenditures | <u>595,073</u> | <u>297,631</u> | | <u>892,704</u> |
| Excess (deficiency) of revenues over expenditures | (428,908) | 24,089 | 1,900 | (402,919) |
| Other financing sources (uses): | | | | |
| Transfers (to) from other funds | 512,484 | | | 512,484 |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | 83,576 | 24,089 | 1,900 | 109,565 |
| Fund balance, beginning of year | <u>135,562</u> | <u>125,042</u> | | <u>260,604</u> |
| Fund balance, end of year | <u>\$ 219,138</u> | <u>\$ 149,131</u> | <u>\$ 1,900</u> | <u>\$ 370,169</u> |

PROPRIETARY FUND

CITY OF HARRODSBURG, KENTUCKY
BALANCE SHEET
MUNICIPAL WATERWORKS AND SEWER SYSTEM
June 30, 2016

ASSETS

LIABILITIES AND NET POSITION

Current assets:

| | |
|---|------------------|
| Cash | \$ 2,481,801 |
| Certificates of deposit | 379,018 |
| Accounts receivable (net of allowance for doubtful accounts of \$ 410,000) | 522,750 |
| Accounts receivable, grantors | 71,662 |
| Accounts receivable, intergovernmental | 27,566 |
| Due from other funds | 21,584 |
| Prepaid expenses | <u>274,674</u> |
| | <u>3,779,055</u> |

Restricted assets:

| | |
|-------------------------|------------------|
| Cash | 1,580,570 |
| Certificates of deposit | <u>466,649</u> |
| | <u>2,047,219</u> |

Capital assets:

| | |
|---------------------------------|------------------|
| Water utility system | 12,152,362 |
| Sewer utility system | 10,371,298 |
| Water and sewer treatment plant | 40,195,916 |
| Equipment and vehicles | 3,228,254 |
| Buildings and land | 835,149 |
| Construction in progress | <u>7,032,981</u> |
| | 73,815,960 |

Less accumulated depreciation 30,810,191

Capital assets, net 43,005,769

Other long term assets:

Bond issuance costs 80,612

Total assets \$ 48,912,655

Deferred outflow of resources \$ 364,447

Current liabilities:

| | |
|--------------------------------|------------------|
| Accounts payable | \$ 78,634 |
| Accounts payable, construction | 863,071 |
| Payroll liabilities | 84,229 |
| Unearned revenue | 27,001 |
| Customer deposits | 269,310 |
| Leases payable | <u>127,382</u> |
| | <u>1,449,627</u> |

Liabilities payable from restricted assets:

| | |
|----------------------------------|----------------|
| Accrued interest payable | 53,886 |
| Current portion of loan payable | 336,355 |
| Current portion of bonds payable | <u>362,000</u> |
| | <u>752,241</u> |

Non-current liabilities:

| | |
|------------------------|-------------------|
| Bonds payable | 12,714,000 |
| Loan payable | 10,871,488 |
| Leases payable | 810,802 |
| Net pension obligation | <u>1,273,616</u> |
| | <u>25,669,906</u> |

Total liabilities \$ 27,871,774

Deferred inflow of resources

\$ 0

Net position:

| | |
|---|------------------|
| invested in capital assets, net of related debt | 17,783,742 |
| Restricted | 2,047,219 |
| Unrestricted | <u>1,574,367</u> |

Total net position \$ 21,405,328

CITY OF HARRODSBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES AND EXPENSES
MUNICIPAL WATERWORKS AND SEWER SYSTEM
For the Year Ended June 30, 2016

| | <u>Water Department</u> | <u>Sewer Department</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------|----------------------|
| Operating revenues: | | | |
| Water sales | \$ 2,204,877 | \$ | \$ 2,204,877 |
| Water taps | 13,971 | | 13,971 |
| Sewer charges | | 2,367,099 | 2,367,099 |
| Sewer taps | | 14,219 | 14,219 |
| Sewer surcharge | | 4,801 | 4,801 |
| Pre-treatment charges | | 126,245 | 126,245 |
| Penalties | 41,208 | 41,209 | 82,417 |
| Other revenue | 13,013 | 13,012 | 26,025 |
| | <u>2,273,069</u> | <u>2,566,585</u> | <u>4,839,654</u> |
| Operating expenses: | | | |
| Water operations | 1,764,509 | | 1,764,509 |
| Sewer operations | | 1,067,511 | 1,067,511 |
| | <u>1,764,509</u> | <u>1,067,511</u> | <u>2,832,020</u> |
| Operating income before depreciation, amortization, and bad debts | <u>508,560</u> | <u>1,499,074</u> | <u>2,007,634</u> |
| Depreciation expense | 996,751 | 996,751 | 1,993,502 |
| Amortization expense | 830 | 830 | 1,660 |
| Bad debts | 17,500 | 17,500 | 35,000 |
| | <u>1,015,081</u> | <u>1,015,081</u> | <u>2,030,162</u> |
| Operating income (loss) | <u>(506,521)</u> | <u>483,993</u> | <u>(22,528)</u> |
| Non-operating revenues (expenses): | | | |
| Interest income | 3,091 | 3,092 | 6,183 |
| Garbage service | 597,867 | | 597,867 |
| Economic development grant | 250,000 | | 250,000 |
| Sales tax | 107,887 | | 107,887 |
| Utility tax | 45,806 | | 45,806 |
| KY River withdrawal fee | 110,547 | | 110,547 |
| Other income | 24,842 | 24,843 | 49,685 |
| Economic development grant | (250,000) | | (250,000) |
| Interest expense | (273,147) | (273,146) | (546,293) |
| Garbage service | (554,400) | | (554,400) |
| Sales tax paid | (110,452) | | (110,452) |
| Utility tax paid | (51,931) | | (51,931) |
| KY River withdrawal fee | (159,326) | | (159,326) |
| | <u>(259,216)</u> | <u>(245,211)</u> | <u>(504,427)</u> |
| Non-operating revenues (expenses), net | <u>(259,216)</u> | <u>(245,211)</u> | <u>(504,427)</u> |
| Income (loss) before other revenues, expenses, gains, losses and transfers | <u>(765,737)</u> | <u>238,782</u> | <u>(526,955)</u> |
| Capital grant proceeds | | 71,662 | 71,662 |
| | <u>\$ (765,737)</u> | <u>\$ 310,444</u> | <u>(455,293)</u> |
| Net position, beginning of year | | | 22,054,713 |
| Prior period adjustment | | | <u>(194,092)</u> |
| Net position, end of year | | | <u>\$ 21,405,328</u> |

CITY OF HARRODSBURG, KENTUCKY
SCHEDULE OF UTILITY OPERATING EXPENSES
MUNICIPAL WATERWORKS AND SEWER SYSTEM
For the Year Ended June 30, 2016

| | <u>Water Department</u> | <u>Sewer Department</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|-----------------------------|---------------------|
| Water administration: | | | |
| Salaries and wages | \$ 62,962 | \$ | \$ 62,962 |
| Fringe benefits | 37,986 | | 37,986 |
| Contractual services | 59,263 | | 59,263 |
| Materials and supplies | 15,104 | | 15,104 |
| Other costs | 21,909 | | 21,909 |
| | <u>197,224</u> | | <u>197,224</u> |
| Water operations: | | | |
| Salaries and wages | 296,544 | | 296,544 |
| Fringe benefits | 170,068 | | 170,068 |
| Contractual services | 429,625 | | 429,625 |
| Materials and supplies | 174,332 | | 174,332 |
| Other costs | 14,770 | | 14,770 |
| | <u>1,085,339</u> | | <u>1,085,339</u> |
| Sewer operations: | | | |
| Salaries and wages | | 200,894 | 200,894 |
| Fringe benefits | | 95,991 | 95,991 |
| Contractual services | | 301,218 | 301,218 |
| Materials and supplies | | 62,388 | 62,388 |
| Other costs | | 12,701 | 12,701 |
| | | <u>673,192</u> | <u>673,192</u> |
| Water and sewer maintenance: | | | |
| Salaries and wages | 129,545 | 105,991 | 235,536 |
| Fringe benefits | 86,129 | 70,469 | 156,598 |
| Contractual services | 32,956 | 26,964 | 59,920 |
| Materials and supplies | 91,038 | 74,486 | 165,524 |
| Other costs | 4,341 | 3,551 | 7,892 |
| | <u>344,009</u> | <u>281,461</u> | <u>625,470</u> |
| Other: | | | |
| Insurance | 137,937 | 112,858 | 250,795 |
| | <u>137,937</u> | <u>112,858</u> | <u>250,795</u> |
| Total operating expenses | <u>\$ 1,764,509</u> | <u>\$ 1,067,511</u> | <u>\$ 2,832,020</u> |

FEDERAL GRANT DISCLOSURES

CITY OF HARRODSBURG, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the City of Harrodsburg, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of City of Harrodsburg, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Harrodsburg, Kentucky.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, for awards issued prior to December 26, 2014, and contained in the Uniform Guidance for awards issued after December 26, 2014, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Harrodsburg, Kentucky has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF HARRODSBURG, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

| Grant/Program Title | Federal CFDA Number | Contract Number | Balance July 1, 2015 | Receipts | Expenditures | Balance June 30, 2016 |
|---|------------------------|--------------------|-------------------------|-----------------------|---------------------|--------------------------|
| A. U.S. Department of Transportation: Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet: | | | | | | |
| Highway Safety Program | 20.616 | PT-15-24 | \$ 586 | \$ (3,888) | \$ 3,302 | \$ - |
| Highway Safety Program | 20.616 | M2HVE-16-07 | - | (728) | 4,787 | 4,059 |
| | | | <u>586</u> | <u>(4,616)</u> | <u>8,089</u> | <u>4,059</u> |
| C. U.S. Department of Agriculture Rural Development: Direct: | | | | | | |
| RUS Loan/Grant | 10.760 | 20-084-1837 | - | - | 1,610,376 | 1,610,376 |
| RUS Loan/Grant | 10.760 | N/A | (27,001) | - | - | (27,001) |
| | | | <u>(27,001)</u> | <u>-</u> | <u>1,610,376</u> | <u>1,583,375</u> |
| D. U.S. Department of Environmental Protection: Congressionally Mandated Projects | | | | | | |
| | 66.202 | XP-95478112 | 103,388 | (103,388) | - | - |
| E. U.S. Environmental Protection Agency: Passed through Commonwealth of Kentucky, Kentucky Infrastructure Authority | | | | | | |
| Revolving Loan Fund | 66.458 | A15-074 | - | (3,379,187) | 4,015,748 | 636,561 * |
| Revolving Loan Fund | 66.458 | A15-075 | - | - | 73,500 | 73,500 ** |
| Revolving Loan Fund | 66.458 | A15-046 | - | (1,181,484) | 1,295,231 | 113,747 * |
| Revolving Loan Fund | 66.458 | A15-031 | - | (171,936) | 194,013 | 22,077 * |
| Revolving Loan Fund | 66.458 | A16-033 | - | - | 89,460 | 89,460 * |
| Revolving Loan Fund | 66.458 | F16-049 | - | - | 93,380 | 93,380 * |
| Revolving Loan Fund | 66.458 | F13-002 | 219,133 | (250,409) | 31,276 | - |
| | | | <u>219,133</u> | <u>(4,983,016)</u> | <u>5,792,608</u> | <u>1,028,725</u> |
| | | | <u>\$ 296,106</u> | <u>\$ (5,091,020)</u> | <u>\$ 7,411,073</u> | <u>\$ 2,616,159</u> |

* These are deemed to be reimbursed from loan proceeds, thus no receivable or liability has been included in the financial statements for these funds.

** \$71,662 of this amount is to be reimbursed from grant proceeds and is recorded as a receivable in the financial statements.

**Independent Auditor's Report on
Internal Control over Financial Reporting Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Mayor and Board of Commissioners
City of Harrodsburg, Kentucky

I 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, each major fund, and the aggregate remaining fund information of the City of Harrodsburg, Kentucky (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated January 5, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of 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 a 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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Craig A. Butler, CPA

Craig A. Butler
Certified Public Accountant

Danville, Kentucky
January 5, 2017

**Independent Auditor's Report on Compliance
For Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

The Mayor and Board of Commissioners
City of Harrodsburg, Kentucky

Report on Compliance for Each Major Federal Program

I have audited the City of Harrodsburg, Kentucky's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In my opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Craig A. Butler, CPA

Craig A. Butler
Certified Public Accountant

Danville, Kentucky
January 5, 2017

CITY OF HARRODSBURG, KENTUCKY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Subpart F of the Uniform Guidance? No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 10.760 | USDA, Rural Development Water & Waste Disposal Systems For Rural Communities Grant and Loan Program |
| 66.458 | U.S. Environmental Protection Agency, Capitalization Grants For Clean Water State Revolving Funds |

CITY OF HARRODSBURG, KENTUCKY
Schedule of Findings and Questioned Costs-Continued
For the Year Ended June 30, 2016

| | |
|---|-------------------|
| Dollar threshold used to distinguish Between type A and type B programs: | \$ <u>750,000</u> |
| Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

No matters were reported in the prior year.