



**CITY OF HARRODSBURG, KENTUCKY**

**Report on Audited Financial Statements  
and Supplementary Information for the  
Year Ended June 30, 2017**

**KERBAUGH, RODES & BUTLER, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS  
DANVILLE, KENTUCKY**

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**Independent Auditor's Report**

Mayor and Board of Commissioners  
City of Harrodsburg, Kentucky

**Report on the Financial Statements**

We 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our 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, 2017, 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 38 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our 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 our 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*, we have also issued our report dated January 15, 2018, on our consideration of the City's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

***Kerbaugh, Rodes & Butler, PLLC***

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
January 15, 2018

**CITY OF HARRODSBURG, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**OVERVIEW**

The report on Audited Financial Statements and Supplementary information for the year ended June 30, 2017 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.

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.

**CITY OF HARRODSBURG, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2017**

**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 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.

**CITY OF HARRODSBURG, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**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 \$35,580 or approximately .88%, indicating a negative change in the City's financial position. The largest portion of the City's net position (\$3,877,181) or approximately 96.4% 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, 2017 was \$661,204 in capital leases and loans used for vehicle and equipment purchases, and for road resurfacing. This is an increase of \$299,888 or approximately 83.0% from the prior year. During the fiscal year ended June 30, 2017, the City entered into one new note payable in the amount of \$398,996 for the purchase of a fire truck and two capital leases for the purchase of trucks totaling \$83,992. Scheduled debt payments for all long-term debt of the City's governmental activities in the amount of \$183,100 were made during the year. As listed on Table I, the City's unreserved and unrestricted governmental fund net position (deficit) was (\$375,288) as of June 30, 2017.

**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 \$370,347 or approximately 1.7%. The largest portion of the City's net position (\$17,009,824) or approximately 80.9% 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 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, 2017 was \$34,289,503 in capital leases for equipment and bonds and loans issued for major improvements to the utility infrastructure. This is an increase of \$9,067,476 or approximately 35.9% over the prior year. During the fiscal year ended June 30, 2017, the City incurred the following new debt:

1. The City received draws in the amount of \$6,620,813 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

**CITY OF HARRODSBURG, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2017**

have yet to be determined and will commence within 12 months from initiation of operation.

2. The City received draws in the amount of \$154,724 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. Interest and principal payments of approximately \$9,200 are to be paid semi-annually through December 2037.
3. The City received draws in the amount of \$601,428 on Kentucky Infrastructure Authority loan #A15-075 for the purpose of funding the Harrodsburg Corning Pump Station and Force Main Project. The 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.
4. The City received draws in the amount of \$238,516 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. Interest and principal payments of approximately \$39,500 are to be paid semi-annually through December 2037.
5. The City received draws in the amount of \$189,546 on Kentucky Infrastructure Authority loan #A16-033 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.
6. The City received draws in the amount of \$439,306 on Kentucky Infrastructure Authority loan #F16-049 for the purpose of funding a water distribution main replacement 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.
7. The City received draws in the amount of \$1,707,951 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 \$884,808 were made during the year. As listed on Table I, the City's business-type activities maintained unrestricted net position of \$1,960,787. This is a \$386,420 increase over the prior year net position or approximately 24.5% increase.

**CITY OF HARRODSBURG, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**BUDGET AND OTHER REQUIRED SUPPLEMENTARY INFORMATION**

Required supplemental information starting on page 38 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 30% of total revenues of the General Fund from ten employers within the City limits. The billings to fifteen customers represent 58% 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, 2017. A discussion of these commitments can be found at footnote VI, page 37 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, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 4,619,866	\$ 6,735,287	\$ 11,355,153
Capital assets, net	<u>4,538,385</u>	<u>51,299,327</u>	<u>55,837,712</u>
Total assets	<u>\$ 9,158,251</u>	<u>\$ 58,034,614</u>	<u>\$ 67,192,865</u>
Deferred outflow of resources	<u>\$ 1,403,994</u>	<u>\$ 480,881</u>	<u>\$ 1,884,875</u>
Long-term debt outstanding	\$ 661,204	\$ 34,289,503	\$ 34,950,707
Net pension obligation	5,279,550	1,509,809	6,789,359
Other liabilities	<u>174,722</u>	<u>1,678,871</u>	<u>1,853,593</u>
Total liabilities	<u>\$ 6,115,476</u>	<u>\$ 37,478,183</u>	<u>\$ 43,593,659</u>
Deferred inflow of resources	<u>\$ 426,182</u>	<u>\$ 2,331</u>	<u>\$ 428,513</u>
Net investment in capital assets	\$ 3,877,181	\$ 17,009,824	\$ 20,887,005
Restricted	518,694	2,064,370	2,583,064
Unrestricted	<u>(375,288)</u>	<u>1,960,787</u>	<u>1,585,499</u>
Total net position	<u>\$ 4,020,587</u>	<u>\$ 21,034,981</u>	<u>\$ 25,055,568</u>

**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 resources	<u>\$ 419,394</u>	<u>\$</u>	<u>\$ 419,394</u>
Net investment in capital assets	\$ 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>

**TABLE 2**  
**CHANGE IN NET POSITION**  
**June 30, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 145,973	\$ 5,913,221	\$ 6,059,194
Operating grants and contributions	617,374		617,374
General revenues:			
Taxes	2,291,007		2,291,007
Licenses, permits and fees	3,299,211		3,299,211
Other	201,225	7,222	208,447
Transfer	880		880
	<u>6,555,670</u>	<u>5,920,443</u>	<u>12,476,113</u>
<b>Program Expenses</b>			
General government	566,956		566,956
Police department	1,724,709		1,724,709
Fire department	1,343,418		1,343,418
Street department	932,580		932,580
Cemeteries	434,607		434,607
Culture and recreation	281,000		281,000
Communications	384,006		384,006
Non-departmentalized	923,974		923,974
Water		3,917,397	3,917,397
Sewer		2,373,393	2,373,393
	<u>6,591,250</u>	<u>6,290,790</u>	<u>12,882,040</u>
Change in net position	(35,580)	(370,347)	(405,927)
Net position, beginning of year	<u>4,056,167</u>	<u>21,405,328</u>	<u>25,461,495</u>
Net position, end of year	<u>\$ 4,020,587</u>	<u>\$ 21,034,981</u>	<u>\$ 25,055,568</u>

**CHANGE IN NET POSITION**  
**June 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Revenues</b>			
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>
 <b>Program Expenses</b>			
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>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 2,597,498	\$ 3,304,937	\$ 5,902,435
Certificates of deposit		380,569	380,569
Receivables:			
Taxes and licenses	1,128,172		1,128,172
Intergovernmental	43,634	71,662	115,296
User fees (net)		557,473	557,473
Notes receivable	39,000		39,000
Due (to) from other funds	(10,000)	10,000	
Prepaid expenses	294,233	267,324	561,557
Total current assets	<u>4,092,537</u>	<u>4,591,965</u>	<u>8,684,502</u>
Restricted cash and certificates of deposit	<u>436,329</u>	<u>2,064,370</u>	<u>2,500,699</u>
Non-current assets:			
Capital assets, net	4,538,385	51,299,327	55,837,712
Notes receivable	91,000		91,000
Bond issuance costs		78,952	78,952
Total non-current assets	<u>4,629,385</u>	<u>51,378,279</u>	<u>56,007,664</u>
Total assets	<u>\$ 9,158,251</u>	<u>\$ 58,034,614</u>	<u>\$ 67,192,865</u>
Deferred outflow of resources	<u>\$ 1,403,994</u>	<u>\$ 480,881</u>	<u>\$ 1,884,875</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 54,637	\$ 78,721	\$ 133,358
Accounts payable, construction		1,175,842	1,175,842
Payroll liabilities	70,827	67,931	138,758
Unearned revenue	47,778	27,001	74,779
Customer deposits		277,414	277,414
Accrued interest payable	1,480		1,480
Leases and loans payable	198,886	133,141	332,027
	<u>373,608</u>	<u>1,760,050</u>	<u>2,133,658</u>
Total liabilities payable from unrestricted assets			
Payable from restricted assets:			
Accrued interest payable		51,962	51,962
Loans payable		421,221	421,221
Bonds payable		374,000	374,000
		<u>847,183</u>	<u>847,183</u>
Total liabilities payable from restricted assets			
Total current liabilities	<u>373,608</u>	<u>2,607,233</u>	<u>2,980,841</u>
Non-current liabilities:			
Bonds, leases, and loans payable	462,318	33,361,141	33,823,459
Net pension obligation	5,279,550	1,509,809	6,789,359
	<u>5,741,868</u>	<u>34,870,950</u>	<u>40,612,818</u>
Total non-current liabilities			
Total liabilities	<u>\$ 6,115,476</u>	<u>\$ 37,478,183</u>	<u>\$ 43,593,659</u>
Deferred inflow of resources	<u>\$ 426,182</u>	<u>\$ 2,331</u>	<u>\$ 428,513</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,877,181	\$ 17,009,824	\$ 20,887,005
Restricted	518,694	2,064,370	2,583,064
Unrestricted	(375,288)	1,960,787	1,585,499
	<u>\$ 4,020,587</u>	<u>\$ 21,034,981</u>	<u>\$ 25,055,568</u>
Total net position			

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
General government	\$ 566,956	\$	\$ 3,000	\$ (563,956)
Police department	1,724,709	4,934	118,688	(1,601,087)
Fire department	1,343,418		94,190	(1,249,228)
Street department	932,580		214,712	(717,868)
Cemeteries	434,607	124,961		(309,646)
Culture and recreation	281,000	16,078		(264,922)
Communications	384,006		186,784	(197,222)
Non-departmentalized	923,974			(923,974)
Total Governmental Activities	<u>6,591,250</u>	<u>145,973</u>	<u>617,374</u>	<u>(5,827,903)</u>
<b>Business-Type Activities:</b>				
Water	3,917,397	3,287,077		(630,320)
Sewer	2,373,393	2,626,144		252,751
Total Business-Type Activities	<u>6,290,790</u>	<u>5,913,221</u>		<u>(377,569)</u>
Total	<u>\$ 12,882,040</u>	<u>\$ 6,059,194</u>	<u>\$ 617,374</u>	<u>\$ (6,205,472)</u>

(Continued)

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Changes in Net Position:</b>			
Net (expense)/revenue	<u>\$ (5,827,903)</u>	<u>\$ (377,569)</u>	<u>\$ (6,205,472)</u>
General revenues:			
Taxes:			
Real property	308,956		308,956
Motor vehicle	103,682		103,682
Tangible personal property	38,312		38,312
Public service company	10,819		10,819
Delinquent	366		366
Insurance premium	1,284,655		1,284,655
Restaurant tax	318,396		318,396
Bank deposits	60,007		60,007
Payments in lieu of taxes	16,296		16,296
Alcohol fees	149,518		149,518
Licenses, permits, and fees:			
Payroll license fees	2,504,815		2,504,815
Net profits license fees	212,750		212,750
Business license fees	20,550		20,550
Street license fees	1,650		1,650
Franchise fees - cable television	56,754		56,754
Franchise fees - electric	433,627		433,627
Franchise fees - natural gas	69,065		69,065
Other:			
Parking fines	110		110
Penalties and interest	12,086		12,086
Interest earned	2,849	7,222	10,071
Sale of surplus property	144,828		144,828
Miscellaneous	41,352		41,352
Transfer from other funds	880		880
Total general revenues and transfers	<u>5,792,323</u>	<u>7,222</u>	<u>5,799,545</u>
Change in net position	(35,580)	(370,347)	(405,927)
Net position, beginning of year	<u>4,056,167</u>	<u>21,405,328</u>	<u>25,461,495</u>
Net position, end of year	<u>\$ 4,020,587</u>	<u>\$ 21,034,981</u>	<u>\$ 25,055,568</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2017

	General Fund	Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 2,597,498	\$ 436,329	\$ 3,033,827
Receivables:			
Taxes and licenses	1,045,807	82,365	1,128,172
Intergovernmental	43,634		43,634
Total assets	<u>\$ 3,686,939</u>	<u>\$ 518,694</u>	<u>\$ 4,205,633</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 54,637	\$	\$ 54,637
Payroll liabilities	70,827		70,827
Due to other funds	10,000		10,000
Total liabilities	135,464		135,464
<b>FUND BALANCE</b>			
Fund balance:			
Restricted for:			
Roads		215,495	215,495
Tourism		151,862	151,862
Police		151,337	151,337
Unassigned	3,551,475		3,551,475
Total fund balance	3,551,475	518,694	4,070,169
Total liabilities and fund balance	<u>\$ 3,686,939</u>	<u>\$ 518,694</u>	

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

Loans made and not repaid within 60 days of year end are a use of funds and are not reported as an asset in the fund financial statements.	130,000
Prepaid expenses in governmental funds are a use of financial resources and therefore are not reported as an asset	294,233
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated depreciation of \$4,963,244	4,538,385
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest	(1,480)
Leases and notes payable	(661,205)
Prepaid net profits license fees are a source of revenue in the governmental fund financial statements and liabilities in the entity wide financial statements	(47,778)
Certain items related to the City's net pension liability do not affect available financial resources and therefore are not reported in the funds	(4,301,737)
Net position of governmental activities	<u>\$ 4,020,587</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2017**

	General Fund	Non-Major Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 1,823,093	\$ 318,396	\$ 2,141,489
Licenses, permits, and fees	3,346,989		3,346,989
Intergovernmental revenue	449,300	167,575	616,875
Alcohol license fee		149,518	149,518
Service charges	145,973		145,973
Other	301,513	213	301,726
Total revenues	<u>6,066,868</u>	<u>635,702</u>	<u>6,702,570</u>
<b>Expenditures:</b>			
General government	537,458		537,458
Police department	1,581,820	81	1,581,901
Fire department	1,681,913		1,681,913
Street department	607,332	371,369	978,701
Cemeteries	379,581		379,581
Culture and recreation	173,176		173,176
Communications	337,178		337,178
Non-departmentalized	866,797	315,728	1,182,525
Total expenditures	<u>6,165,255</u>	<u>687,178</u>	<u>6,852,433</u>
Excess (deficiency) of revenues over expenditures before other financing sources	<u>(98,387)</u>	<u>(51,476)</u>	<u>(149,863)</u>
<b>Other financing sources (uses):</b>			
Transfers (to) from other funds	(199,120)	200,000	880
Lease proceeds	482,988		482,988
Total other financing sources (uses)	<u>283,868</u>	<u>200,000</u>	<u>483,868</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	185,481	148,524	334,005
Fund balance, beginning of year	<u>3,365,994</u>	<u>370,170</u>	<u>3,736,164</u>
Fund balance, end of year	<u>\$ 3,551,475</u>	<u>\$ 518,694</u>	<u>\$ 4,070,169</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, 2017**

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Net change in fund balances - total governmental funds	\$	334,005
Governmental funds report long term loans as expenditures while governmental activities report long term loans as an asset (net)		130,000
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		581,046
Depreciation expense		(377,294)
Governmental funds report prepayments of expenditures as an expense while governmental activities report prepaid expenses as an asset		(1,447)
Governmental funds report debt proceeds as revenues and debt service payments as expenditures:		
Capital lease and note obligation principal payments		183,100
Capital lease proceeds		(482,988)
Accrued interest on loans		1,432
Governmental funds report prepaid net profits fees as revenue while governmental activities report these as unearned revenue		(47,778)
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.		<u>(355,656)</u>
Change in net position of governmental activities	<u>\$</u>	<u>(35,580)</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2017**

	<u><b>Municipal Waterworks &amp; Sewer System</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 3,304,937
Certificates of deposit	380,569
Accounts receivable, customers (net)	557,473
Accounts receivable, grantor	71,662
Due from other funds	10,000
Prepaid expenses	<u>267,324</u>
Total unrestricted current assets	<u>4,591,965</u>
Restricted cash and certificates of deposit	<u>2,064,370</u>
Non-current assets:	
Capital assets, net	51,299,327
Bond issuance costs	<u>78,952</u>
Total non-current assets	<u>51,378,279</u>
Total assets	<u><u>\$ 58,034,614</u></u>
Deferred outflow of resources	<u><u>\$ 480,881</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 78,721
Accounts payable, construction	1,175,842
Payroll liabilities	67,931
Unearned revenue	27,001
Customer deposits	277,414
Leases and loans payable	<u>133,141</u>
Total liabilities payable from unrestricted assets	<u>1,760,050</u>
Payable from restricted assets:	
Accrued interest payable	51,962
Loan payable	421,221
Bonds payable	<u>374,000</u>
Total liabilities payable from restricted assets	<u>847,183</u>
Total current liabilities	<u>2,607,233</u>
Non-current liabilities:	
Bonds, leases, and loans payable	33,361,141
Net pension obligation	<u>1,509,809</u>
Total long term liabilities	<u>34,870,950</u>
Total liabilities	<u><u>\$ 37,478,183</u></u>
Deferred inflow of resources	<u><u>\$ 2,331</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 17,009,824
Restricted	2,064,370
Unrestricted	<u>1,960,787</u>
Total net position	<u><u>\$ 21,034,981</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2017

	<u>Municipal Waterworks &amp; Sewer System</u>
<b>Operating revenues:</b>	
Water sales	\$ 2,279,837
Water taps	11,120
Sewer charges	2,374,871
Sewer taps	15,016
Sewer surcharge	5,837
Pre-treatment charges	128,041
Penalties	134,781
Other revenue	<u>32,824</u>
Total operating revenues	<u>4,982,327</u>
<b>Operating expenses:</b>	
Water operations	1,760,737
Sewer operations	<u>1,095,353</u>
Total operating expenses	<u>2,856,090</u>
Operating income before depreciation, amortization, and bad debts	<u>2,126,237</u>
Depreciation expense	1,999,335
Amortization expense	1,660
Bad debts	<u>30,000</u>
Total depreciation, amortization, and bad debts	<u>2,030,995</u>
Operating income (loss)	<u>95,242</u>
<b>Non-operating revenues (expenses):</b>	
Interest income	7,222
Garbage service	602,940
Sales tax	121,407
Utility tax	45,986
KY River withdrawal fee	123,406
Other income	37,155
Interest expense	(525,087)
Garbage service	(562,048)
Sales tax paid	(107,902)
Utility tax paid	(46,668)
KY River withdrawal fee	<u>(162,000)</u>
Non-operating revenues (expenses), net	<u>(465,589)</u>
Income (loss)	(370,347)
Net position, beginning of year	<u>21,405,328</u>
Net position, end of year	<u>\$ 21,034,981</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2017**

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	<u>Municipal Waterworks &amp; Sewer System</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 4,917,604
Payments to suppliers	(1,536,484)
Payments to employees	<u>(1,217,233)</u>
Net cash provided by (used in) operating activities	<u>2,163,887</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Security deposit receipts	57,792
Security deposit refunds	(49,688)
Non-operating receipts	952,335
Non-operating disbursements	<u>(878,618)</u>
Net cash provided by (used in) non-capital financing activities	<u>81,821</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Capital asset purchases	(9,969,121)
Principal paid on bonds, leases, and loans	(867,239)
Loan proceeds	9,952,284
Interest paid on bonds, leases, and loans	<u>(527,011)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,411,087)</u>
<b>Cash Flows from Investing Activities:</b>	
Purchase of investments	(2,993)
Interest on investments	<u>7,222</u>
Net cash provided by (used in) investing activities	<u>4,229</u>
Net increase (decrease) in cash	838,850
Cash, beginning of year	<u>4,062,371</u>
Cash, end of year	<u>\$ 4,901,221</u>
<b>Cash is Classified as:</b>	
Unrestricted	\$ 3,304,937
Restricted	<u>1,596,284</u>
	<u>\$ 4,901,221</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2017**

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	<u>Municipal Waterworks &amp; Sewer System</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>	
Operating income (loss)	<u>\$ 95,242</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,999,335
Amortization	1,660
Bad debts	30,000
Change in assets and liabilities:	
Accounts receivable	(64,723)
Due from other funds	(10,856)
Prepaid expenses	7,350
Accounts payable	87
Payroll liabilities	(16,298)
Net pension obligation	<u>122,090</u>
Total adjustments	<u>2,068,645</u>
Net cash provided by (used in) operating activities	<u><u>\$ 2,163,887</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUND**  
**June 30, 2017**

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	<u>Cemetery Fund</u>
<b>ASSETS</b>	
Cash	\$ 86,102
Certificates of deposit	<u>295,331</u>
Total assets	<u>\$ 381,433</u>
 <b>NET POSITION</b>	
Net position	<u>\$ 381,433</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUND**  
**For the Year Ended June 30, 2017**

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	<u>Cemetery Fund</u>
<b>Revenues:</b>	
Perpetual care	\$ 27,000
Interest	1,041
Total revenues	<u>28,041</u>
<b>Expenditures:</b>	
Capital outlay	<u>11,142</u>
Excess (deficiency) of revenues over expenditures	16,899
<b>Other financing sources (uses):</b>	
Transfers (to) from other funds	<u>(880)</u>
Excess (deficiency) of revenues over expenditures and transfers	16,019
Net position, beginning of year	<u>365,414</u>
Net position, end of year	<u><u>\$ 381,433</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

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**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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**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, 2017**

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

<u>Fund</u>	<u>Fund Type</u>	<u>Major/ Non-Major</u>
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, 2017**

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**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**  
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City through January 15, 2018 (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 \$440,000, 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**  
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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**  
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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. *Net investment in capital assets* 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 "net investment in capital assets."

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**  
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**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 \$0.667 per \$100 of assessed value for the year ended June 30, 2017. 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, 2017, all of the City's deposits in financial institutions, were insured or collateralized. Funds collateralized with securities held by the pledging financial institution totaled \$7,704,956.

**CITY OF HARRODSBURG, KENTUCKY**  
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B. **Property Tax Calendar.** Property taxes for fiscal year 2017 were levied on October 1, 2016 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.....	December 1

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

<u>Department/Classification</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Non- departmentalized	\$ 560,563	\$ 866,797	\$ 306,234

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, 2017:

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, 2017.
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, 2017.
  - 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, 2017.
    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, 2017.
    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, 2017.
    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, 2017.
    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, 2017.
    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, 2017.
    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, 2017.

**CITY OF HARRODSBURG, KENTUCKY**  
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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, 2017.
  - 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, 2017.
  - 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, 2017.
- 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, 2017 this account was properly funded.

**III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

- A. **Cash and Certificates of Deposit.** 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, 2017, the City's funds on deposit in financial institutions, were properly insured or collateralized. Funds collateralized with securities held by pledging financial institutions totaled \$7,704,956.

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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, 2017 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	12,000	12,000	0.20 %	2/14/18
Certificate of Deposit	35,189	35,189	0.33 %	8/20/17
Certificate of Deposit	179,624	179,624	0.40 %	12/17/17
Certificate of Deposit	22,021	22,021	0.33 %	8/20/17
Certificate of Deposit	379,855	379,855	0.33 %	8/20/17
Certificate of Deposit	188,945	188,945	0.40 %	9/28/16
	<u>\$ 848,655</u>	<u>\$ 848,655</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, 2017 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	\$ 215,495	\$	\$ 215,495
Tourism development fund	69,497		69,497
Alcohol beverage control fund	151,337		151,337
	<u>\$ 436,329</u>	<u>\$</u>	<u>\$ 436,329</u>
<i>Business-Type Activities:</i>			
Bond sinking fund	\$ 726,897	\$ 31,021	\$ 757,918
Note sinking fund	80,859		80,859
Depreciation fund	162,426	57,210	219,636
Debt reserve fund	154,979		154,979
Repairs and maintenance fund	471,123	379,855	850,978
	<u>\$ 1,596,284</u>	<u>\$ 468,086</u>	<u>\$ 2,064,370</u>

**CITY OF HARRODSBURG, KENTUCKY**  
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C. **Receivables.** Receivables included as current assets on the Statement of Net Position, as of June 30, 2017, consists of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<i><b>Taxes and Licenses:</b></i>			
Payroll license	\$ 639,004	\$	\$ 639,004
Insurance license	393,242		393,242
Auto taxes	11,249		11,249
Net profits license	1,259		1,259
Returned checks	1,053		1,053
Restaurant tax	82,365		82,365
	1,128,172		1,128,172
<i><b>Intergovernmental:</b></i>			
Water treatment plant grant		71,662	71,662
Transportation grant	37,175		37,175
Police grants	6,459		6,459
	43,634	71,662	115,296
<i><b>Other:</b></i>			
Wilderness Trace YMCA	130,000		130,000
Due from other funds	(10,000)	10,000	
	120,000	10,000	130,000
<i><b>User Fees:</b></i>			
User fees		997,473	997,473
Less allowance for doubtful accounts		440,000	440,000
		557,473	557,473
Total receivables	\$ 1,291,806	\$ 639,135	\$ 1,930,941

D. **Notes Receivable.** During the year ended June 30, 2017, the City of Harrodsburg loaned the Wilderness Trace Family Young Men's Christian Association, Inc. (YMCA) \$195,000 so they could repay loans for their facilities and \$35,000 to assist with payment of operating expenses. Payment of \$100,000 has been received on the \$195,000 loan leaving a balance of \$95,000 and no payments have been received on the \$35,000 loan. Neither loan bears interest. The remaining balance of \$95,000 is to be repaid as follows and the \$35,000 loan is payable on demand.

	<b>Principal</b>
2018	\$ 39,000
2019	39,000
2020	17,000
	\$ 95,000

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
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E. **Internal Balances.** The following interfund payables and receivables occurred as of June 30, 2017:

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
<i>Major Funds:</i>		
General fund	\$	\$ 10,000
Municipal waterworks and sewer system	10,000	
	<b>\$ 10,000</b>	<b>\$ 10,000</b>

The receivable due to the Municipal Waterworks and Sewer System was due to one receipt deposited into the general fund bank account in error.

F. **Capital Assets.** The activity related to capital assets for the fiscal year ended June 30, 2017 was as follows:

	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>
<b>Governmental Activities:</b>				
Land	\$ 627,929	\$	\$	\$ 627,929
Land improvements	1,695,878			1,695,878
Vehicles and equipment	3,501,310	543,871	368,848	3,676,333
Buildings	2,469,399			2,469,399
Infrastructure	994,917			994,917
Construction in progress		37,175		37,175
Total cost	9,289,433	581,046	368,848	9,501,631
<b>Accumulated depreciation:</b>				
Land improvements	1,018,877	46,315		1,065,192
Vehicles and equipment	2,630,582	242,991	368,848	2,504,725
Buildings	1,088,860	67,050		1,155,910
Infrastructure	216,481	20,938		237,419
Total accumulated depreciation	4,954,800	377,294	368,848	4,963,246
Total capital assets, net	<b>\$ 4,334,633</b>	<b>\$ 203,752</b>	<b>\$</b>	<b>\$ 4,538,385</b>

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**Business-Type Activities:**

Land	\$ 662,164	\$	\$	\$ 662,164
Vehicles and equipment	3,228,254	133,437	6,500	3,355,191
Buildings	172,985			172,985
Water utility system	12,152,362	615,128		12,767,490
Sewer utility system	10,371,298	1,783,397		12,154,695
Water and sewer treatment plant	40,195,916			40,195,916
Construction in progress	<u>7,032,981</u>	<u>10,159,455</u>	<u>2,398,524</u>	<u>14,793,912</u>
Total cost	<u>73,815,960</u>	<u>12,691,417</u>	<u>2,405,024</u>	<u>84,102,353</u>
Accumulated depreciation:				
Vehicles and equipment	1,900,986	167,535	6,500	2,062,021
Buildings	41,326	4,325		45,651
Water utility system	6,083,513	479,825		6,563,338
Sewer utility system	6,884,495	358,586		7,243,081
Water and sewer treatment plant	<u>15,899,871</u>	<u>989,064</u>		<u>16,888,935</u>
Total accumulated depreciation	<u>30,810,191</u>	<u>1,999,335</u>	<u>6,500</u>	<u>32,803,026</u>
Total capital assets, net	<u>\$ 43,005,769</u>	<u>\$ 10,692,082</u>	<u>\$ 2,398,524</u>	<u>\$ 51,299,327</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 8,480
Police department	80,222
Fire department	51,311
Street department	62,015
Cemeteries	53,779
Culture and recreation	98,796
Communications	<u>22,691</u>
Total depreciation expense	<u>\$ 377,294</u>

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

**Capital Leases**

- In 2017, the City obtained \$398,996 financing for the purchase of a fire truck, which cost \$398,996. The 84-month capital lease agreement requires annual lease payments of \$64,058, including interest at 3.25% per annum. The lease is payable through 2024 and has a balance of \$360,366 as of June 30, 2017.
- 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.
- In 2017, the City obtained \$30,900 financing for the purchase of a Ford F-150 truck for the fire department, which cost \$30,900. The 48-month capital lease agreement requires annual payments of \$8,464, including interest at 6.45% per annum. This lease is payable through 2020 and has a balance of \$22,436 as of June 30, 2017.
- 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 and has a balance of \$25,593 as of June 30, 2017.

**CITY OF HARRODSBURG, KENTUCKY**  
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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 was paid in full during 2017.
6. In 2015, the City obtained \$62,030 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 and has a balance of \$31,550 as of June 30, 2017.
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 and has a balance of \$19,481 as of June 30, 2017.
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 and has a balance of \$19,396 as of June 30, 2017.
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 and has a balance of \$85,485 as of June 30, 2017.
10. In 2017, the City obtained \$53,092 financing for the purchase of a Ford F550 dump truck and snow plow for the streets department which cost \$53,092. The 48-month capital lease agreement requires monthly payments of \$1,228, including interest at 5.45% per annum. The lease is payable through 2021 and has a balance of \$42,768 as of June 30, 2017.

The following is a schedule of property and equipment and outstanding liabilities relating to capital lease agreements at June 30, 2017:

**Governmental Funds:**

Property Leased	Asset Cost	Accumulated Depreciation	Net Book Value	Lease Payable		
				Current Portion	Long-Term Portion	Total
Dump trucks	\$ 93,306	\$ 18,154	\$ 75,152	\$ 19,970	\$ 42,279	\$ 62,249
Fire trucks	429,896	15,507	414,389	60,004	322,798	382,802
Police cruisers	335,866	143,066	192,800	55,981	86,647	142,628
Excavators	42,485	15,173	27,312	8,802	10,594	19,396
	<u>\$ 901,553</u>	<u>\$ 191,900</u>	<u>\$ 709,653</u>	<u>\$ 144,757</u>	<u>\$ 462,318</u>	<u>\$ 607,075</u>

**Business Activity Funds:**

Property Leased	Asset Cost	Accumulated Depreciation	Net Book Value	Lease Payable		
				Current Portion	Long-Term Portion	Total
Water meters	<u>\$1,819,122</u>	<u>\$ 819,361</u>	<u>\$ 999,761</u>	<u>\$ 133,141</u>	<u>\$ 677,661</u>	<u>\$ 810,802</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

H. **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, 2017, 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%.	\$ 19,481
60-month lease for the purchase of police cruisers. The lease bears interest at 3.801%.	31,550
60-month lease for the purchase of an excavator. The lease bears interest at 2.14%.	19,396
60-month lease for the purchase of police cruisers. The lease bears interest at 3.567%.	85,485
60-month lease for the purchase of police cruisers. The lease bears interest at 3.92%.	25,593
48-month lease for the purchase a dump truck. The lease bears interest at 5.45%.	42,768
84-month lease for the purchase of a fire truck. The lease bears interest at 3.25%.	360,366
48-month lease for the purchase of a truck for the fire department. The lease bears interest at 6.45%.	22,436
	<u>607,075</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 26, 2017. The loan is secured by an assignment of the gas tax revenues obtained by the City during the duration of the note.

54,129

\$ 661,204

**Included as liability on Statement of Net Position:**

Current liability	\$ 198,886
Non-current liability	<u>462,318</u>
	<u>\$ 661,204</u>

**Business-Type Activities.** As of June 30, 2017, 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%.	\$ 810,802
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**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.

1,151,403

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 payments of approximately \$18,000 are to be paid semi-annually through June 1, 2035.

560,689

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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<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>	282,519
<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>	316,041
<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>	2,276,957
<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>	10,000,000
<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. Principal and interest payments of approximately \$9,200 are to be paid semi-annually through December 2037.</p>	319,075
<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. Principal and interest payments of approximately \$39,500 are to be paid semi-annually through December 2037.</p>	1,387,030
<p>Loan A15-075 is for the Harrodsburg Corning Pump Station and Force Main Project. The uncollateralized \$810,000 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 completion of the project. Interest is to begin accruing on the draws at the time of the first draw.</p>	601,428
<p>Loan A16-033 is for Sewer Rehabilitation 2015 Project. The uncollateralized \$1,223,520 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 completion of the project. Interest is to begin accruing on the draws at the time of the first draw.</p>	189,546

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

Loan F16-049 is for the Water Distribution Main Replacement 2015 Project. The uncollateralized \$2,877,200 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 completion of the project. Interest is to begin accruing on the draws at the time of the first draw. 439,306

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. 3,240,707

***Bonds payable:***

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. 530,000

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 4.5%. Principal is paid annually through December 2043, and interest is paid semi-annually. 952,000

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. 2,140,000

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. 7,373,000

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. 1,719,000

\$ 34,289,503

Included as liability on Statement of Net Position:

	<b>Leases Payable</b>	<b>Loans Payable</b>	<b>Bonds Payable</b>	<b>Total</b>
Current liability	\$ 133,141	\$	\$	\$ 133,141
Current liability payable from restricted resources		421,221	374,000	795,221
Non-current liability	677,661	20,343,480	12,340,000	33,361,141
	<u>\$ 810,802</u>	<u>\$ 20,764,701</u>	<u>\$ 12,714,000</u>	<u>\$ 34,289,503</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2017

- I. **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, 2017:

Type of Debt	Balance July 1, 2016	Proceeds	Payments	Balance June 30, 2017	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Capital leases payable	\$ 254,796	\$ 482,988	\$ 130,709	\$ 607,075	\$ 144,757
Loans payable	106,520		52,391	54,129	54,129
Total governmental activities	<u>\$ 361,316</u>	<u>\$ 482,988</u>	<u>\$ 183,100</u>	<u>\$ 661,204</u>	<u>\$ 198,886</u>
<b>Business-Type Activities:</b>					
Bonds payable	\$ 13,076,000		\$ 362,000	\$ 12,714,000	\$ 374,000
Capital leases payable	938,184		127,382	810,802	133,141
Loans payable	11,207,843	9,952,284	395,426	20,764,701	421,221
Total business-type activities	<u>\$ 25,222,027</u>	<u>\$ 9,952,284</u>	<u>\$ 884,808</u>	<u>\$ 34,289,503</u>	<u>\$ 928,362</u>

- J. **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, 2017 are as follows:

	Year Ending June 30	Principal	Interest	Total
<b>Governmental Activities:</b>				
	2018	\$ 198,886	\$ 21,181	\$ 220,067
	2019	124,904	15,390	140,294
	2020	115,141	10,678	125,819
	2021	84,549	6,503	91,052
	2022	60,313	3,746	64,059
	2023	62,297	1,762	64,059
	2024	15,114	123	15,237
		<u>\$ 661,204</u>	<u>\$ 59,383</u>	<u>\$ 720,587</u>
<b>Proprietary Activities:</b>				
	2018	\$ 928,363	\$ 515,992	\$ 1,444,355
	2019	4,187,402	493,620	4,681,022
	2020	970,861	470,649	1,441,510
	2021	830,371	446,933	1,277,304
	2022	835,242	426,186	1,261,428
	2024 - 2027	3,025,400	1,888,730	4,914,130
	2028 - 2032	3,013,958	1,546,621	4,560,579
	2033 - 2037	2,939,626	1,157,119	4,096,745
	2038 - 2042	2,242,000	784,968	3,026,968
	2043 - 2047	1,988,500	425,172	2,413,672
	2048 - 2052	1,952,000	160,869	2,112,869
	2053 - 2054	145,500	4,296	149,796
		<u>\$ 23,059,223</u>	<u>\$ 8,321,155</u>	<u>\$ 31,380,378</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

Kentucky Infrastructure Authority notes A15-074, A15-075, A16-033 and F16-049 totaling \$11,230,280 are not included in the proprietary activities debt service schedule above since the due dates, and payment amounts have not yet been determined.

- K. **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, 2017 for Industrial Revenue Bonds is not available.
- L. **Interest Expense.** Interest expense has been included in the Statement of Activities in the following functions/programs:

***Governmental Activities:***

Police department	\$ 7,286
Fire department	9,413
Street department	5,893
Cemetery department	<u>41</u>
	<u>22,633</u>

***Proprietary Activities:***

Water	262,544
Sewer	<u>262,543</u>
	<u>525,087</u>

Total interest expense	<u><u>\$ 547,720</u></u>
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Total interest capitalized in the proprietary fund was \$71,123.

- M. **Net Position.** Net position at June 30, 2017 is identified as follows:

***Governmental Funds:***

***Restricted for:***

Police department	\$ 151,337
Roads	215,495
Tourism	<u>151,862</u>
Total net position, restricted	<u><u>\$ 518,694</u></u>

***Proprietary Funds:***

Bond sinking fund	\$ 757,918
Note sinking fund	80,859
Debt reserve fund	154,979
Depreciation fund	219,636
Repairs and maintenance fund	<u>850,978</u>
Total net position, restricted	<u><u>\$ 2,064,370</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

N. **Transfers.** The following operating transfers were made during fiscal year 2017:

	<b>Transfers In</b>	<b>Transfers Out</b>
Major Funds:		
General fund	\$ 880	\$ 200,000
Non-major Funds:		
Municipal aid fund	200,000	
Fiduciary Fund:		
Cemetery fund		880
	<u>\$ 200,880</u>	<u>\$ 200,880</u>

The transfer of \$880 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.

\$200,000 was transferred from the General Fund to the Municipal Aid Fund to provide resources for the payment of debt service.

**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, 2017, 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, 2017, participating employers contributed 18.68% of each employee's wages for non-hazardous job classifications and 31.06% 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

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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 \$651,489 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$478,326 to the CERS pension fund and \$173,163 to the CERS insurance fund.

**Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources.** At June 30, 2017, the City reported a liability of \$5,279,550 in the governmental activities fund and \$1,509,809 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, 2016, 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, actuarially determined. At June 30, 2016, the City's proportion was .103151% for non-hazardous job classifications and .099689% for hazardous job classifications.

For the year ended June 30, 2017, the City recognized pension expense of \$355,656 in the governmental activities fund and \$122,089 in the business-type activities fund. At June 30, 2017, 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	\$ 34,819	\$	\$ 12,025	\$
Changes of assumptions	273,331		93,876	
Net difference between projected and actual earnings on Plan investments	462,479		159,280	
Changes in proportion and differences between City contributions and proportionate share of contributions	275,761	426,182	94,978	2,331
City contributions subsequent to the measurement date	357,604		120,722	
Total	<u>\$ 1,403,994</u>	<u>\$ 426,182</u>	<u>\$ 480,881</u>	<u>\$ 2,331</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

The \$356,088 and \$122,238 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:

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Year ending June 30,			
2018	\$ 254,007	\$ 87,195	\$ 341,202
2019	183,656	63,045	246,701
2020	198,076	67,996	266,072
2021	92,357	31,704	124,061
Total	\$ 728,096	\$ 249,940	\$ 978,036

**Actuarial Assumptions.** The total pension liability in the June 30, 2016 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

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.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Real Rate of Return</u>
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 27-year amortization period of the unfunded actuarial accrued liability.

**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:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.50 %	\$ 8,477,975
Current discount rate	7.50 %	6,789,359
1% increase	8.50 %	5,356,081

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**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:

<u>Type of Coverage</u>	<u>Insured Amount</u>	<u>Deductible</u>
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	38,838,077	1,000
Equipment	1,321,379	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, 2017 related to these potential liabilities.

The City has committed to pay Campbellsville University - Harrodsburg branch \$50,000 over the next five years. In addition, there is one construction project in which the City has entered into a contract for architect services totaling \$123,918. Of this amount, \$86,743 remains to be paid on the contract.

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, 2017 is \$19,246,949. The balance remaining on the contracts at June 30, 2017 is \$5,636,933.

**VII. ECONOMIC DEPENDENCY**

**General Government Revenue.** The City collected approximately \$1,842,000, representing 74%, of its payroll license fees and 30% 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 \$2,890,000 which represented 58% of the System's operating revenues.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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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**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**Last Four Fiscal Years\***

	2017		2016		2015		2014	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
City's proportion of the net pension liability	0.103151%	0.099689%	0.096361%	0.112177%	0.084193%	0.152137%	0.084193%	0.152137%
City's proportionate share of the net pension liability (asset)	\$ 5,078,759	\$ 1,710,600	\$ 4,143,084	\$ 1,722,032	\$ 3,244,376	\$ 1,201,824	\$ 3,083,695	\$ 2,033,902
City's covered employee payroll	2,569,834	551,977	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	197.63%	309.90%	171.77%	340.75%	145.35%	206.63%	161.27%	269.92%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.95%	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.

There were no changes to plan assumptions for the measurement period ending June 30, 2016

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 Five Fiscal Years\***

	2017		2016		2015		2014		2013	
	Non-Hazardous	Hazardous								
Contractually required employer contribution	\$ 480,045	\$ 171,444	\$ 444,236	\$ 171,803	\$ 414,209	\$ 200,220	\$ 364,902	\$ 275,121	\$ 359,339	\$ 294,336
Contributions relative to contractually required employer contribution	480,045	171,444	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	\$ 0	\$ 0
City's covered employee payroll	\$ 2,569,834	\$ 551,977	\$ 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	18.68%	31.06%	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.

There were no changes to plan assumptions for the measurement period ending June 30, 2016.

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**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**For the Year Ending June 30, 2017**

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**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**  
**STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2017**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes	\$ 1,761,347	\$ 1,761,347	\$ 1,823,093	\$ 61,746
Licenses, permits, and fees	3,235,833	3,235,833	3,346,989	111,156
Intergovernmental revenue	454,451	454,451	449,300	(5,151)
Service charges	126,800	126,800	145,973	19,173
Other	554,546	554,546	301,513	(253,033)
<b>Total revenues</b>	<u>6,132,977</u>	<u>6,132,977</u>	<u>6,066,868</u>	<u>(66,109)</u>
<b>Expenditures:</b>				
General government	541,610	541,610	537,458	4,152
Police department	1,761,552	1,761,552	1,581,820	179,732
Fire department	1,380,893	1,779,889	1,681,913	97,976
Street department	757,036	757,036	607,332	149,704
Cemeteries	412,617	412,617	379,581	33,036
Culture and recreation	244,284	244,284	173,176	71,108
Communications	474,422	474,422	337,178	137,244
Non-departmentalized	560,563	560,563	866,797	(306,234)
<b>Total expenditures</b>	<u>6,132,977</u>	<u>6,531,973</u>	<u>6,165,255</u>	<u>366,718</u>
Excess (deficiency) of revenues over expenditures before other financing sources		<u>(398,996)</u>	<u>(98,387)</u>	<u>300,609</u>
<b>Other financing sources (uses):</b>				
Transfers (to) from other funds			(199,120)	(199,120)
Lease proceeds		398,996	482,988	83,992
<b>Total other financing sources (uses)</b>		<u>398,996</u>	<u>283,868</u>	<u>(115,128)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)			185,481	185,481
Fund balance, beginning of year	<u>3,365,994</u>	<u>3,365,994</u>	<u>3,365,994</u>	
Fund balance, end of year	<u>\$ 3,365,994</u>	<u>\$ 3,365,994</u>	<u>\$ 3,551,475</u>	<u>\$ 185,481</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUE - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Taxes:</b>				
Real property	\$ 310,000	\$ 310,000	\$ 308,956	\$ (1,044)
Motor vehicle	95,659	95,659	103,682	8,023
Tangible personal property	40,000	40,000	38,312	(1,688)
Public service company	10,263	10,263	10,819	556
Delinquent	500	500	366	(134)
Insurance premium	1,231,000	1,231,000	1,284,655	53,655
Bank deposits	55,675	55,675	60,007	4,332
Payments in lieu of taxes	18,250	18,250	16,296	(1,954)
	<u>1,761,347</u>	<u>1,761,347</u>	<u>1,823,093</u>	<u>61,746</u>
<b>Licenses, permits, and fees:</b>				
Payroll license fees	2,491,000	2,491,000	2,504,815	13,815
Net profits license fees	175,000	175,000	260,528	85,528
Business license fees	18,000	18,000	20,550	2,550
Street license fees	1,575	1,575	1,650	75
Franchise fee - cable television	56,758	56,758	56,754	(4)
Franchise fee - electric	413,500	413,500	433,627	20,127
Franchise fee - natural gas	80,000	80,000	69,065	(10,935)
	<u>3,235,833</u>	<u>3,235,833</u>	<u>3,346,989</u>	<u>111,156</u>
<b>Intergovernmental revenue:</b>				
Police pay incentive	81,999	81,999	83,745	1,746
Firefighters pay incentive	68,000	68,000	79,190	11,190
Police court fines	15,250	15,250	12,714	(2,536)
911 reimbursements	202,100	202,100	158,981	(43,119)
Mercer County Fiscal Court	25,000	25,000	25,000	
Mercer County Fire District	4,000	4,000	4,000	
Burgin contribution, communications	2,802	2,802	2,803	1
Other grants and subsidies	55,300	55,300	82,867	27,567
	<u>454,451</u>	<u>454,451</u>	<u>449,300</u>	<u>(5,151)</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUE - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Service charges:</b>				
Rental income	17,500	17,500	16,078	(1,422)
Police arrest fees	5,000	5,000	4,934	(66)
Interment, Spring Hill	68,200	68,200	77,020	8,820
Lots sold, Spring Hill	27,000	27,000	31,050	4,050
Interment, Maple Grove	3,850	3,850	5,500	1,650
Lots sold, Maple Grove	750	750	2,750	2,000
Monument bases	4,500	4,500	8,641	4,141
	<u>126,800</u>	<u>126,800</u>	<u>145,973</u>	<u>19,173</u>
<b>Other:</b>				
Parking fines	200	200	110	(90)
Penalties and interest	19,002	19,002	12,086	(6,916)
Interest earned	3,000	3,000	2,637	(363)
Drug investigation receipts	6,100	6,100		(6,100)
Sale of surplus property	100,000	100,000	144,828	44,828
Donations			500	500
Miscellaneous	426,244	426,244	141,352	(284,892)
	<u>554,546</u>	<u>554,546</u>	<u>301,513</u>	<u>(253,033)</u>
<b>Total revenues</b>	<u><u>\$ 6,132,977</u></u>	<u><u>\$ 6,132,977</u></u>	<u><u>\$ 6,066,868</u></u>	<u><u>\$ (66,109)</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>General government:</b>				
Salaries and wages	\$ 314,831	\$ 314,831	\$ 306,621	\$ 8,210
Fringe benefits	98,179	98,179	89,219	8,960
Contractual services	67,100	67,100	84,698	(17,598)
Materials and supplies	21,500	21,500	16,981	4,519
Other costs	40,000	40,000	25,475	14,525
Capital outlay			14,464	(14,464)
	<u>541,610</u>	<u>541,610</u>	<u>537,458</u>	<u>4,152</u>
<b>Police department:</b>				
Salaries and wages	950,233	950,233	868,971	81,262
Fringe benefits	456,669	456,669	379,454	77,215
Contractual services	108,150	108,150	90,013	18,137
Materials and supplies	130,300	130,300	127,750	2,550
Other costs	34,200	34,200	34,468	(268)
Capital outlay	20,000	20,000	19,935	65
Debt service	62,000	62,000	61,229	771
	<u>1,761,552</u>	<u>1,761,552</u>	<u>1,581,820</u>	<u>179,732</u>
<b>Fire department:</b>				
Salaries and wages	709,891	709,891	688,859	21,032
Fringe benefits	397,702	397,702	331,355	66,347
Contractual services	75,800	75,800	65,920	9,880
Materials and supplies	81,500	81,500	72,238	9,262
Other costs	29,000	29,000	27,695	1,305
Capital outlay	16,000	414,996	439,339	(24,343)
Debt service	71,000	71,000	56,507	14,493
	<u>1,380,893</u>	<u>1,779,889</u>	<u>1,681,913</u>	<u>97,976</u>
<b>Street department:</b>				
Salaries and wages	272,091	272,091	193,751	78,340
Fringe benefits	145,945	145,945	88,004	57,941
Contractual services	235,350	235,350	196,471	38,879
Materials and supplies	58,400	58,400	36,829	21,571
Other costs	12,250	12,250	8,587	3,663
Capital outlay	33,000	33,000	53,092	(20,092)
Debt service			30,598	(30,598)
	<u>757,036</u>	<u>757,036</u>	<u>607,332</u>	<u>149,704</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Cemeteries:</b>				
Salaries and wages	163,460	163,460	169,543	(6,083)
Fringe benefits	89,107	89,107	77,614	11,493
Contractual services	89,350	89,350	86,791	2,559
Materials and supplies	42,000	42,000	29,361	12,639
Other costs	7,000	7,000	4,801	2,199
Capital outlay	10,000	10,000	8,550	1,450
Debt service	11,700	11,700	2,921	8,779
	<u>412,617</u>	<u>412,617</u>	<u>379,581</u>	<u>33,036</u>
<b>Culture and recreation:</b>				
Salaries and wages	94,900	94,900	72,097	22,803
Fringe benefits	50,634	50,634	32,371	18,263
Contractual services	65,550	65,550	51,876	13,674
Materials and supplies	19,450	19,450	11,480	7,970
Other costs	5,750	5,750	5,352	398
Debt service	8,000	8,000		8,000
	<u>244,284</u>	<u>244,284</u>	<u>173,176</u>	<u>71,108</u>
<b>Communications:</b>				
Salaries and wages	275,078	275,078	198,880	76,198
Fringe benefits	132,027	132,027	83,938	48,089
Contractual services	13,667	13,667	14,782	(1,115)
Materials and supplies	18,300	18,300	9,404	8,896
Other costs	5,350	5,350	3,594	1,756
Capital outlay	30,000	30,000	26,580	3,420
	<u>474,422</u>	<u>474,422</u>	<u>337,178</u>	<u>137,244</u>
<b>Non-departmentalized:</b>				
Insurance	285,000	285,000	266,193	18,807
Grants and subsidies	275,563	275,563	600,604	(325,041)
	<u>560,563</u>	<u>560,563</u>	<u>866,797</u>	<u>(306,234)</u>
Total expenditures	<u>\$ 6,132,977</u>	<u>\$ 6,531,973</u>	<u>\$ 6,165,255</u>	<u>\$ 366,718</u>

## **OTHER SUPPLEMENTARY INFORMATION**

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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, 2017**

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 215,495	\$ 69,497	\$ 151,337	\$ 436,329
Accounts receivable, taxes		82,365		82,365
Total assets	<u>\$ 215,495</u>	<u>\$ 151,862</u>	<u>\$ 151,337</u>	<u>\$ 518,694</u>
<b>FUND BALANCE</b>				
Fund balance:				
Restriected for:				
Roads	\$ 215,495			\$ 215,495
Tourism		151,862		151,862
Police			151,337	151,337
Total fund balance	<u>\$ 215,495</u>	<u>\$ 151,862</u>	<u>\$ 151,337</u>	<u>\$ 518,694</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR FUNDS**  
**For the Year Ended June 30, 2017**

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
<b>Revenues:</b>				
Intergovernmental revenue	\$ 167,575	\$	\$	\$ 167,575
Restaurant tax collections		318,396		318,396
Alcohol license fee			149,518	149,518
Interest income	151	62		213
Total revenues	<u>167,726</u>	<u>318,458</u>	<u>149,518</u>	<u>635,702</u>
<b>Expenditures:</b>				
Grants and subsidies		315,728		315,728
Police department:				
Contractual services			81	81
Street department:				
Paving	286,019			286,019
Materials and supplies	29,439			29,439
Debt service	55,911			55,911
Total expenditures	<u>371,369</u>	<u>315,728</u>	<u>81</u>	<u>687,178</u>
Excess (deficiency) of revenues over expenditures	(203,643)	2,730	149,437	(51,476)
<b>Other financing sources (uses):</b>				
Transfers (to) from other funds	<u>200,000</u>			<u>200,000</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(3,643)	2,730	149,437	148,524
Fund balance, beginning of year	<u>219,138</u>	<u>149,132</u>	<u>1,900</u>	<u>370,170</u>
Fund balance, end of year	<u>\$ 215,495</u>	<u>\$ 151,862</u>	<u>\$ 151,337</u>	<u>\$ 518,694</u>

**PROPRIETARY FUND**

**CITY OF HARRODSBURG, KENTUCKY**  
**BALANCE SHEET**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
June 30, 2017

<b>ASSETS</b>		<b>LIABILITIES AND NET POSITION</b>	
Current assets:		Current liabilities:	
Cash	\$ 3,304,937	Accounts payable	\$ 78,721
Certificates of deposit	380,569	Accounts payable, construction	1,175,842
Accounts receivable (net of allowance for doubtful accounts of \$ 440,000)	557,473	Payroll liabilities	67,931
Accounts receivable, grantors	71,662	Unearned revenue	27,001
Due from other funds	10,000	Customer deposits	277,414
Prepaid expenses	<u>267,324</u>	Leases payable	<u>133,141</u>
	<u>4,591,965</u>		<u>1,760,050</u>
Restricted assets:		Liabilities payable from restricted assets:	
Cash	1,596,284	Accrued interest payable	51,962
Certificates of deposit	<u>468,086</u>	Current portion of loan payable	421,221
	<u>2,064,370</u>	Current portion of bonds payable	<u>374,000</u>
			<u>847,183</u>
Capital assets:		Non-current liabilities:	
Water utility system	12,767,490	Bonds payable	12,340,000
Sewer utility system	12,154,695	Loan payable	20,343,480
Water and sewer treatment plant	40,195,916	Leases payable	677,661
Equipment and vehicles	3,355,191	Net pension obligation	<u>1,509,809</u>
Buildings and land	835,149		<u>34,870,950</u>
Construction in progress	<u>14,793,912</u>		
	84,102,353	Total liabilities	<u>\$ 37,478,183</u>
Less accumulated depreciation	<u>32,803,026</u>		
Capital assets, net	<u>51,299,327</u>	Deferred inflow of resources	<u>\$ 2,331</u>
Other long term assets:		Net position:	
Bond issuance costs	<u>78,952</u>	Net investment in capital assets	\$ 17,009,824
		Restricted	2,064,370
Total assets	<u>\$ 58,034,614</u>	Unrestricted	<u>1,960,787</u>
Deferred outflow of resources	<u>\$ 480,881</u>	Total net position	<u>\$ 21,034,981</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES AND EXPENSES**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
For the Year Ended June 30, 2017

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
<b>Operating revenues:</b>			
Water sales	\$ 2,279,837	\$	\$ 2,279,837
Water taps	11,120		11,120
Sewer charges		2,374,871	2,374,871
Sewer taps		15,016	15,016
Sewer surcharge		5,837	5,837
Pre-treatment charges		128,041	128,041
Penalties	67,391	67,390	134,781
Other revenue	16,412	16,412	32,824
Total operating revenues	<u>2,374,760</u>	<u>2,607,567</u>	<u>4,982,327</u>
<b>Operating expenses:</b>			
Water operations	1,760,737		1,760,737
Sewer operations		1,095,353	1,095,353
Total operating expenses	<u>1,760,737</u>	<u>1,095,353</u>	<u>2,856,090</u>
Operating income before depreciation, amortization, and bad debts	<u>614,023</u>	<u>1,512,214</u>	<u>2,126,237</u>
Depreciation expense	999,668	999,667	1,999,335
Amortization expense	830	830	1,660
Bad debts	15,000	15,000	30,000
Total depreciation, amortization, and bad debts	<u>1,015,498</u>	<u>1,015,497</u>	<u>2,030,995</u>
Operating income (loss)	<u>(401,475)</u>	<u>496,717</u>	<u>95,242</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	3,611	3,611	7,222
Garbage service	602,940		602,940
Sales tax	121,407		121,407
Utility tax	45,986		45,986
KY River withdrawal fee	123,406		123,406
Other income	18,578	18,577	37,155
Interest expense	(262,544)	(262,543)	(525,087)
Garbage service	(562,048)		(562,048)
Sales tax paid	(107,902)		(107,902)
Utility tax paid	(46,668)		(46,668)
KY River withdrawal fee	(162,000)		(162,000)
Non-operating revenues (expenses), net	<u>(225,234)</u>	<u>(240,355)</u>	<u>(465,589)</u>
Increase (decrease) in net assets	<u>\$ (626,709)</u>	<u>\$ 256,362</u>	<u>(370,347)</u>
Net position, beginning of year			<u>21,405,328</u>
Net position, end of year			<u>\$ 21,034,981</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**SCHEDULE OF UTILITY OPERATING EXPENSES**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
For the Year Ended June 30, 2017

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
<b>Water administration:</b>			
Salaries and wages	\$ 66,404	\$	\$ 66,404
Fringe benefits	35,424		35,424
Contractual services	40,320		40,320
Materials and supplies	14,989		14,989
Other costs	29,352		29,352
	<u>186,489</u>		<u>186,489</u>
<b>Total water administration</b>			
	<u>186,489</u>		<u>186,489</u>
<b>Water operations:</b>			
Salaries and wages	292,529		292,529
Fringe benefits	167,126		167,126
Contractual services	392,806		392,806
Materials and supplies	232,531		232,531
Other costs	11,471		11,471
	<u>1,096,463</u>		<u>1,096,463</u>
<b>Total water operations</b>			
	<u>1,096,463</u>		<u>1,096,463</u>
<b>Sewer operations:</b>			
Salaries and wages		243,574	243,574
Fringe benefits		118,004	118,004
Contractual services		294,765	294,765
Materials and supplies		41,326	41,326
Other costs		6,770	6,770
		<u>704,439</u>	<u>704,439</u>
<b>Total sewer operations</b>			
		<u>704,439</u>	<u>704,439</u>
<b>Water and sewer maintenance:</b>			
Salaries and wages	127,335	104,184	231,519
Fringe benefits	86,674	70,915	157,589
Contractual services	46,329	37,905	84,234
Materials and supplies	67,451	55,187	122,638
Other costs	3,801	3,110	6,911
	<u>331,590</u>	<u>271,301</u>	<u>602,891</u>
<b>Total water and sewer maintenance</b>			
	<u>331,590</u>	<u>271,301</u>	<u>602,891</u>
<b>Other:</b>			
Insurance	146,195	119,613	265,808
	<u>146,195</u>	<u>119,613</u>	<u>265,808</u>
<b>Total operating expenses</b>			
	<u>\$ 1,760,737</u>	<u>\$ 1,095,353</u>	<u>\$ 2,856,090</u>

**FEDERAL GRANT DISCLOSURES**

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2017**

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**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 position, 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 the Uniform Guidance 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, 2017**

Grant/Program Title	Federal CFDA Number	Contract Number	Balance July 1, 2016	Receipts	Expenditures	Balance June 30, 2017	Passed Through To Subrecipients
<b>A. U.S. Department of Transportation:</b>							
Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet:							
Highway Safety Program	20.616	PT-2017-HY-82	\$ -	\$ -	\$ 606	\$ 606	\$ -
Highway Safety Program	20.616	M2HVE-16-07	4,059	(8,033)	3,974	-	-
			<u>4,059</u>	<u>(8,033)</u>	<u>4,580</u>	<u>606</u>	<u>-</u>
Sidewalk Improvement Program	20.205	6000-053	-	-	37,175	37,175	37,175
<b>B. U.S. Department of Agriculture Rural Development:</b>							
Direct:							
RUS Loan/Grant	10.760	20-084-1837	75,827	(1,779,614)	2,650,066	946,279 *	-
RUS Loan/Grant	10.760	N/A	(27,001)	-	-	(27,001)	-
			<u>48,826</u>	<u>(1,779,614)</u>	<u>2,650,066</u>	<u>919,278</u>	<u>-</u>
<b>C. U.S. Environmental Protection Agency:</b>							
Passed through Commonwealth of Kentucky, Kentucky Infrastructure Authority							
Revolving Loan Fund	66.458	A15-074	636,561	(6,620,813)	5,984,252	-	-
Revolving Loan Fund	66.458	A15-075	73,500	(601,428)	539,128	11,200 *	-
Revolving Loan Fund	66.458	A15-046	113,747	(238,516)	124,769	-	-
Revolving Loan Fund	66.458	F15-031	22,077	(154,724)	132,647	-	-
Revolving Loan Fund	66.458	A16-033	89,460	(189,546)	218,155	118,069 *	-
Revolving Loan Fund	66.458	F16-049	93,380	(439,306)	516,078	170,152 *	-
			<u>1,028,725</u>	<u>(8,244,333)</u>	<u>7,515,029</u>	<u>299,421</u>	<u>-</u>
			<u>\$ 1,081,610</u>	<u>\$ (10,031,980)</u>	<u>\$ 10,206,850</u>	<u>\$ 1,256,480</u>	<u>\$ 37,175</u>

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

**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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 15, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
January 15, 2018

**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**

We 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 direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. 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**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our 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, 2017.

## 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 our audit of compliance, we 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, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
January 15, 2018

**CITY OF HARRODSBURG, KENTUCKY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

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**Section I-Summary of Auditor's Results**

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**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 2 CFR 200.516(a)? 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

