

**CITY OF HARRODSBURG, KENTUCKY**

**Report on Audited Financial Statements  
and Supplementary Information for the  
Year Ended June 30, 2018**

**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, 2018, 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, 2018, 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.

### ***Change in Accounting Principle***

As described in Note IX to the financial statements, in 2018, the City adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

### ***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, net pension liability information, and net other postemployment benefits information on pages III through X and 46 through 56 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, 2019, 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 the effectiveness of the City's 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, 2019

**CITY OF HARRODSBURG, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**OVERVIEW**

The report on Audited Financial Statements and Supplementary information for the year ended June 30, 2018 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.

**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.

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JUNE 30, 2018**

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.

**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 \$262,583 or approximately 11%, indicating a negative change in the City's financial position. The largest portion of the City's net position (\$3,903,654) reflects its investment in capital assets (e.g. land, buildings, equipment, and infrastructure); less any related

**CITY OF HARRODSBURG, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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, 2018 was \$735,870 in capital leases and loans used for vehicle and equipment purchases, and for road resurfacing. This is an increase of \$74,666 or approximately 11.3% from the prior year. During the fiscal year ended June 30, 2018, the City entered into three capital leases for the purchase of a dump truck four police cruisers, two police trucks, and police equipment totaling \$343,892. Scheduled debt payments for all long-term debt of the City's governmental activities in the amount of \$269,229 were made during the year. As listed on Table I, the City's unreserved and unrestricted governmental fund net position (deficit) was (\$2,368,442) as of June 30, 2018.

**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 increased by \$541,993 or approximately 2.6%. The largest portion of the City's net position (\$16,233,013) or approximately 76.9% 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, 2018 was \$40,926,740 in capital leases for equipment and bonds and loans issued for major improvements to the utility infrastructure. This is an increase of \$6,637,237 or approximately 19.4% over the prior year. During the fiscal year ended June 30, 2018, the City incurred the following new debt:

1. The City received draws in the amount of \$13,721 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. Interest and principal payments of approximately \$17,000 are to be paid semi-annually through December 2037.
2. The City received draws in the amount of \$520,044 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.
3. The City received draws in the amount of \$1,446,766 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

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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 issued \$8,840,000 of Series 2016 Sewer System Revenue Bonds to finance the additions and improvements to the existing sewer system. The bonds bear interest at a rate of 2.75%. Principal is paid annually through December 2056. Interest is due semi-annually.
5. The City received draws in the amount of \$5,143,848 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. The loan was paid off with the issuance of the Series 2016 Bonds.

Scheduled debt payments for all long-term debt of the City's business-type activities in the amount of \$9,327,143 were made during the year. As listed on Table I, the City's business-type activities maintained unrestricted net position of \$391,115. This is a \$1,115,032 increase over the prior year net position or approximately 74.0% decrease.

**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, GASB 75 other post-employment benefits information, and notes to the required supplementary information.

**NET PENSION LIABILITY**

The City's net pension liability is measured and reported in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans. The guidance contained in Statement No. 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards, GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all governments in the plan. The City's net pension obligation was \$8,434,467 as of June 30, 2018, compared to \$6,789,359 as of June 30, 2017.

**NET OPEB LIABILITY**

The City's net OPEB liability is measured and reported in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with postemployment benefits other than pensions that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The



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MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

guidance contained in Statement No. 75 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all governments in the plan. The City's net OPEB liability was \$2,955,443 as of June 30, 2018, compared to \$2,162,859 as of June 30, 2017.

**ECONOMIC OUTLOOK**

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 70% of its payroll license fees and net profits and 28% of total revenues of the General Fund from ten employers within the City limits. The billings to twenty customers represent 56% 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, 2018. A discussion of these commitments can be found at footnote VII, page 44 of the financial statements.

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. The most significant economic factors identified by the City's management that will have a direct adverse effect on the financial condition of the City next year and beyond are the continued increases in retirement rates mandated by the state related to the hazardous and non-hazardous duty employees. The rates are expected to continue to increase at a significant pace and will make it necessary for management to allocate the necessary funds to meet these higher retirement costs in the future. The funded status of the CERS plan will have a significant impact on the required contributions and the City's proportionate share of the net pension liability and OPEB liabilities.

**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, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 5,206,564	\$ 9,802,217	\$ 15,008,781
Capital assets, net	<u>4,639,524</u>	<u>57,159,753</u>	<u>61,799,277</u>
Total assets	<u>\$ 9,846,088</u>	<u>\$ 66,961,970</u>	<u>\$ 76,808,058</u>
Deferred outflow of resources	<u>\$ 3,221,511</u>	<u>\$ 776,576</u>	<u>\$ 3,998,087</u>
Long-term debt outstanding	\$ 735,870	\$ 40,926,740	\$ 41,662,610
Net pension obligation	6,746,850	1,687,617	8,434,467
Post employment benefits payable	2,375,824	579,619	2,955,443
Other liabilities	<u>213,680</u>	<u>3,236,266</u>	<u>3,449,946</u>
Total liabilities	<u>\$ 10,072,224</u>	<u>\$ 46,430,242</u>	<u>\$ 56,502,466</u>
Deferred inflow of resources	<u>\$ 945,594</u>	<u>\$ 185,970</u>	<u>\$ 1,131,564</u>
Net investment in capital assets	\$ 3,903,654	\$ 16,233,013	\$ 20,136,667
Restricted	514,569	4,498,206	5,012,775
Unrestricted	<u>(2,368,442)</u>	<u>391,115</u>	<u>(1,977,327)</u>
Total net position	<u>\$ 2,049,781</u>	<u>\$ 21,122,334</u>	<u>\$ 23,172,115</u>

**NET POSITION  
(as restated)  
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
Post employment benefits payable	1,708,223	454,636	2,162,859
Other liabilities	<u>174,722</u>	<u>1,678,871</u>	<u>1,853,593</u>
Total liabilities	<u>\$ 7,823,699</u>	<u>\$ 37,932,819</u>	<u>\$ 45,756,518</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>(2,083,511)</u>	<u>1,506,147</u>	<u>577,364</u>
Total net position	<u>\$ 2,312,364</u>	<u>\$ 20,580,341</u>	<u>\$ 22,892,705</u>

**TABLE 2****CHANGE IN NET POSITION  
June 30, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 123,430	\$ 6,100,403	\$ 6,223,833
Operating grants and contributions	655,974		655,974
Capital grants and contributions	368,750	1,006,443	1,375,193
General revenues:			
Taxes	2,432,449		2,432,449
Licenses, permits and fees	3,418,447		3,418,447
Other	116,864	9,103	125,967
Transfer	585		585
	<u>7,116,499</u>	<u>7,115,949</u>	<u>14,232,448</u>
<b>Program Expenses</b>			
General government	660,456		660,456
Police department	2,019,825		2,019,825
Fire department	1,373,932		1,373,932
Street department	898,194		898,194
Cemeteries	454,572		454,572
Culture and recreation	342,372		342,372
Communications	360,011		360,011
Non-departmentalized	1,269,720		1,269,720
Water		4,039,307	4,039,307
Sewer		2,534,649	2,534,649
	<u>7,379,082</u>	<u>6,573,956</u>	<u>13,953,038</u>
Change in net position	(262,583)	541,993	279,410
Net position, beginning of year	<u>2,312,364</u>	<u>20,580,341</u>	<u>22,892,705</u>
Net position, end of year	<u>\$ 2,049,781</u>	<u>\$ 21,122,334</u>	<u>\$ 23,172,115</u>

**CHANGE IN NET POSITION**  
**(as restated)**  
**June 30, 2017**

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	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<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
Total revenues	6,555,670	5,920,443	12,476,113
<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
Total expenses	6,591,250	6,290,790	12,882,040
Change in net position	(35,580)	(370,347)	(405,927)
Net position, beginning of year	4,056,167	21,405,328	25,461,495
Adjustment for post employment benefits payable	(1,708,223)	(454,640)	(2,162,863)
Net position end of year	\$ 2,312,364	\$ 20,580,341	\$ 22,892,705

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Current assets:</b>			
Cash	\$ 2,994,400	\$ 3,866,197	\$ 6,860,597
Certificates of deposit		382,130	382,130
Receivables:			
Taxes and licenses	1,248,671		1,248,671
Intergovernmental	76,089	29,928	106,017
User fees (net)		545,620	545,620
Other	138,307	138,307	276,614
Notes receivable	39,000		39,000
Prepaid expenses	237,748	241,215	478,963
<b>Total current assets</b>	<b>4,734,215</b>	<b>5,203,397</b>	<b>9,937,612</b>
Restricted cash and certificates of deposit	416,349	4,498,206	4,914,555
<b>Non-current assets:</b>			
Capital assets, net	4,639,524	57,159,753	61,799,277
Notes receivable	56,000		56,000
Bond issuance costs		100,614	100,614
<b>Total non-current assets</b>	<b>4,695,524</b>	<b>57,260,367</b>	<b>61,955,891</b>
<b>Total assets</b>	<b>\$ 9,846,088</b>	<b>\$ 66,961,970</b>	<b>\$ 76,808,058</b>
Deferred outflow of resources	\$ 3,221,511	\$ 776,576	\$ 3,998,087

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 128,936	\$ 79,584	\$ 208,520
Accounts payable, construction		969,874	969,874
Payroll liabilities	84,744	73,151	157,895
Unearned revenue		1,777,832	1,777,832
Customer deposits		283,519	283,519
Leases and loans payable	179,569	139,161	318,730
	<u>393,249</u>	<u>3,323,121</u>	<u>3,716,370</u>
Total liabilities payable from unrestricted assets			
Payable from restricted assets:			
Accrued interest payable		52,306	52,306
Loans payable		454,764	454,764
Bonds payable		381,500	381,500
		<u>888,570</u>	<u>888,570</u>
Total liabilities payable from restricted assets			
	<u>393,249</u>	<u>4,211,691</u>	<u>4,604,940</u>
Total current liabilities			
Non-current liabilities:			
Bonds, leases, and loans payable	556,301	39,951,315	40,507,616
Net pension obligation	6,746,850	1,687,617	8,434,467
Post employment benefits payable	2,375,824	579,619	2,955,443
	<u>9,678,975</u>	<u>42,218,551</u>	<u>51,897,526</u>
Total non-current liabilities			
	<u>\$ 10,072,224</u>	<u>\$ 46,430,242</u>	<u>\$ 56,502,466</u>
Total liabilities			
Deferred inflow of resources	<u>\$ 945,594</u>	<u>\$ 185,970</u>	<u>\$ 1,131,564</u>
<b>NET POSITION</b>			
Net investment in capital assets			
Restricted	\$ 3,903,654	\$ 16,233,013	\$ 20,136,667
Unrestricted	514,569	4,498,206	5,012,775
	<u>(2,368,442)</u>	<u>391,115</u>	<u>(1,977,327)</u>
	<u>\$ 2,049,781</u>	<u>\$ 21,122,334</u>	<u>\$ 23,172,115</u>
Total net position			

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities:</b>					
General government	\$ 660,456	\$	\$ 3,000	\$	\$ (657,456)
Police department	2,019,825	3,873	144,587		(1,871,365)
Fire department	1,373,932		92,733		(1,281,199)
Street department	898,194		221,379		(676,815)
Cemeteries	454,572	101,013			(353,559)
Culture and recreation	342,372	18,544			(323,828)
Communications	360,011		179,625		(180,386)
Non-departmentalized	1,269,720		14,650	368,750	(886,320)
<b>Total Governmental Activities</b>	<b>7,379,082</b>	<b>123,430</b>	<b>655,974</b>	<b>368,750</b>	<b>(6,230,928)</b>
<b>Business-Type Activities:</b>					
Water	4,039,307	3,328,502			(710,805)
Sewer	2,534,649	2,771,901		1,006,443	1,243,695
<b>Total Business-Type Activities</b>	<b>6,573,956</b>	<b>6,100,403</b>		<b>1,006,443</b>	<b>532,890</b>
<b>Total</b>	<b>\$ 13,953,038</b>	<b>\$ 6,223,833</b>	<b>\$ 655,974</b>	<b>\$ 1,375,193</b>	<b>\$ (5,698,038)</b>

(Continued)

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Changes in Net Position:</b>			
Net (expense)/revenue	<u>\$ (6,230,928)</u>	<u>\$ 532,890</u>	<u>\$ (5,698,038)</u>
General revenues:			
Taxes:			
Real property	304,338		304,338
Motor vehicle	105,427		105,427
Tangible personal property	30,288		30,288
Public service company	18,534		18,534
Insurance premium	1,373,844		1,373,844
Restaurant tax	318,066		318,066
Bank deposits	54,816		54,816
Payments in lieu of taxes	15,244		15,244
Alcohol fees	211,892		211,892
Licenses, permits, and fees:			
Payroll license fees	2,557,804		2,557,804
Net profits license fees	253,190		253,190
Business license fees	21,725		21,725
Street license fees	1,575		1,575
Franchise fees - cable television	52,055		52,055
Franchise fees - electric	447,719		447,719
Franchise fees - natural gas	84,379		84,379
Other:			
Parking fines	50		50
Penalties and interest	10,225		10,225
Interest earned	3,920	9,103	13,023
Sale of surplus property	6,679		6,679
Insurance claim receipts	8,563		8,563
Miscellaneous	87,427		87,427
Transfer from other funds	585		585
Total general revenues and transfers	<u>5,968,345</u>	<u>9,103</u>	<u>5,977,448</u>
Change in net position	(262,583)	541,993	279,410
Net position, beginning of year (as restated)	<u>2,312,364</u>	<u>20,580,341</u>	<u>22,892,705</u>
Net position, end of year	<u>\$ 2,049,781</u>	<u>\$ 21,122,334</u>	<u>\$ 23,172,115</u>



**CITY OF HARRODSBURG, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2018**

	<b>General Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 2,994,400	\$ 416,349	\$ 3,410,749
Receivables:			
Taxes and licenses	1,168,426	80,245	1,248,671
Intergovernmental	62,714	13,375	76,089
Due from other funds		4,600	4,600
Other	138,307		138,307
Total assets	\$ 4,363,847	\$ 514,569	\$ 4,878,416
<b>LIABILITIES</b>			
Accounts payable	\$ 128,936	\$	\$ 128,936
Payroll liabilities	84,744		84,744
Due to other funds	4,600		4,600
Total liabilities	218,280		218,280
<b>FUND BALANCE</b>			
Fund balance:			
Restricted for:			
Roads		112,824	112,824
Tourism		137,781	137,781
Police		263,964	263,964
Unassigned	4,145,567		4,145,567
Total fund balance	4,145,567	514,569	4,660,136
Total liabilities and fund balance	\$ 4,363,847	\$ 514,569	

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.	95,000
Prepaid expenses are a use of financial resources and therefore are not reported as an asset in the fund financial statements	237,748
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 \$5,328,288	4,639,524
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(735,870)
Certain items related to the City's net pension liability do not affect available financial resources and therefore are not reported in the funds	(5,126,768)
Certain items related to the City's post employment benefits liability do not affect available financial resources and therefore are not reported in the funds	(1,719,989)
Net position of governmental activities	\$ 2,049,781

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes	\$ 1,902,491	\$ 318,066	\$ 2,220,557
Licenses, permits, and fees	3,370,669		3,370,669
Intergovernmental revenue	828,795	182,886	1,011,681
Alcohol license fee		211,892	211,892
Service charges	123,430		123,430
Other	148,942	5,464	154,406
<b>Total revenues</b>	<u>6,374,327</u>	<u>718,308</u>	<u>7,092,635</u>
<b>Expenditures:</b>			
General government	524,950		524,950
Police department	2,021,991		2,021,991
Fire department	1,174,158		1,174,158
Street department	632,805	275,594	908,399
Cemeteries	423,475		423,475
Culture and recreation	218,971		218,971
Communications	291,181		291,181
Non-departmentalized	937,183	346,839	1,284,022
<b>Total expenditures</b>	<u>6,224,714</u>	<u>622,433</u>	<u>6,847,147</u>
Excess (deficiency) of revenues over expenditures before other financing sources	<u>149,613</u>	<u>95,875</u>	<u>245,488</u>
<b>Other financing sources (uses):</b>			
Transfers (to) from other funds	100,585	(100,000)	585
Lease proceeds	343,892		343,892
<b>Total other financing sources (uses)</b>	<u>444,477</u>	<u>(100,000)</u>	<u>344,477</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	594,090	(4,125)	589,965
Fund balance, beginning of year	<u>3,551,477</u>	<u>518,694</u>	<u>4,070,171</u>
Fund balance, end of year	<u>\$ 4,145,567</u>	<u>\$ 514,569</u>	<u>\$ 4,660,136</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, 2018**

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Net change in fund balances - total governmental funds	\$	589,965
Governmental funds report repayment of long term receivables as income while governmental activities report repayment as a reduction of the receivable		(35,000)
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		455,682
Depreciation expense		(365,044)
Governmental funds report prepayments of expenditures as an expense while governmental activities report prepaid expenses as an asset		(56,482)
Governmental funds report debt proceeds as revenues and debt service payments as expenditures:		
Capital lease and note obligation principal payments		269,229
Capital lease proceeds		(343,892)
Accrued interest on loans		1,476
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.		(825,030)
Transfer of capital assets from a trust fund has no affect on the governmental funds, however, this is reported as income on the entity wide statements		10,500
In the fund financial statements, post employment benefits payable are recognized as payments are made, however, in the government-wide financial statements, post employment benefit obligations are recognized based on the overall changes in the net post employment benefits payable and deferred inflows and outflows of resources.		(11,765)
		<hr style="width: 100%;"/>
Change in net position of governmental activities	\$	<u>(262,583)</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2018**

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	<u><b>Municipal Waterworks &amp; Sewer System</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 3,866,197
Certificates of deposit	382,130
Accounts receivable, customers (net)	545,620
Accounts receivable, other	138,307
Accounts receivable, grantors	29,928
Prepaid expenses	<u>241,215</u>
Total unrestricted current assets	<u>5,203,397</u>
Restricted cash and certificates of deposit	<u>4,498,206</u>
Non-current assets:	
Capital assets, net	57,159,753
Bond issuance costs	<u>100,614</u>
Total non-current assets	<u>57,260,367</u>
Total assets	<u><u>\$ 66,961,970</u></u>
Deferred outflow of resources	<u><u>\$ 776,576</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 79,584
Accounts payable, construction	969,874
Payroll liabilities	73,151
Unearned revenue	1,777,832
Customer deposits	283,519
Leases and loans payable	<u>139,161</u>
Total liabilities payable from unrestricted assets	<u>3,323,121</u>
Payable from restricted assets:	
Accrued interest payable	52,306
Loans payable	454,764
Bonds payable	<u>381,500</u>
Total liabilities payable from restricted assets	<u>888,570</u>
Total current liabilities	<u>4,211,691</u>
Non-current liabilities:	
Bonds, leases, and loans payable	39,951,315
Net pension obligation	1,687,617
Post employment benefits payable	<u>579,619</u>
Total long term liabilities	<u>42,218,551</u>
Total liabilities	<u><u>\$ 46,430,242</u></u>
Deferred inflow of resources	<u><u>\$ 185,970</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 16,233,013
Restricted	4,498,206
Unrestricted	<u>391,115</u>
Total net position	<u><u>\$ 21,122,334</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2018**

	<u>Municipal Waterworks &amp; Sewer System</u>
<b>Operating revenues:</b>	
Water sales	\$ 2,286,713
Water taps	13,677
Sewer charges	2,508,612
Sewer taps	16,856
Sewer surcharge	4,499
Pre-treatment charges	141,649
Penalties	144,031
Other revenue	<u>27,510</u>
Total operating revenues	<u>5,143,547</u>
<b>Operating expenses:</b>	
Water operations	1,806,463
Sewer operations	<u>1,215,041</u>
Total operating expenses	<u>3,021,504</u>
Operating income before depreciation, amortization, and bad debts	<u>2,122,043</u>
Depreciation expense	2,061,982
Amortization expense	1,660
Bad debts	<u>53,000</u>
Total depreciation, amortization, and bad debts	<u>2,116,642</u>
Operating income (loss)	<u>5,401</u>
<b>Non-operating revenues (expenses):</b>	
Interest income	9,103
Garbage service	623,746
Sales tax	123,162
Utility tax	46,982
KY River withdrawal fee	133,936
Other income	29,030
Interest expense	(522,574)
Garbage service	(582,879)
Sales tax paid	(113,544)
Utility tax paid	(47,788)
KY River withdrawal fee	<u>(169,025)</u>
Non-operating revenues (expenses), net	<u>(469,851)</u>
Income (loss) before other revenues, expenses, gains and losses and transfers	(464,450)
Capital grant proceeds	<u>1,006,443</u>
Increase (decrease) in net assets	541,993
Net position, beginning of year (as restated)	<u>20,580,341</u>
Net position, end of year	<u>\$ 21,122,334</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2018**

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	<u>Municipal Waterworks &amp; Sewer System</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 5,102,400
Payments to suppliers	(1,726,092)
Payments to employees	<u>(1,211,557)</u>
Net cash provided by (used in) operating activities	<u>2,164,751</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Security deposit receipts	50,144
Security deposit refunds	(44,038)
Received from other funds	10,000
Non-operating receipts	956,856
Non-operating disbursements	<u>(914,038)</u>
Net cash provided by (used in) non-capital financing activities	<u>58,924</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Capital asset purchases	(8,128,376)
Principal paid on bonds, leases, and loans	(9,327,143)
Capital grant proceeds	2,799,008
Loan fees	(23,322)
Bond and loan proceeds	15,964,381
Interest paid on bonds, leases, and loans	<u>(522,230)</u>
Net cash provided by (used in) capital and related financing activities	<u>762,318</u>
<b>Cash Flows from Investing Activities:</b>	
Purchase of investments	(1,466)
Interest on investments	<u>9,103</u>
Net cash provided by (used in) investing activities	<u>7,637</u>
Net increase (decrease) in cash	2,993,630
Cash, beginning of year	<u>4,901,221</u>
Cash, end of year	<u>\$ 7,894,851</u>
<b>Cash is Classified as:</b>	
Unrestricted	\$ 3,866,197
Restricted	<u>4,028,654</u>
	<u>\$ 7,894,851</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2018**

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	<u><b>Municipal Waterworks &amp; Sewer System</b></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>	
Operating income (loss)	<u>\$ 5,401</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,061,982
Amortization	1,660
Bad debts	53,000
Change in assets and liabilities:	
Accounts receivable	(179,454)
Prepaid expenses	26,109
Accounts payable	865
Payroll liabilities	4,452
Net pension obligation	197,788
Net post employment benefits payable	<u>(7,052)</u>
Total adjustments	<u>2,159,350</u>
Net cash provided by (used in) operating activities	<u><u>\$ 2,164,751</u></u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUND**  
**June 30, 2018**

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	<u>Cemetery Fund</u>
<b>ASSETS</b>	
Cash	\$ 145,390
Certificates of deposit	<u>232,493</u>
Total assets	<u>\$ 377,883</u>
 <b>NET POSITION</b>	
Net position	<u>\$ 377,883</u>



**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUND**  
**For the Year Ended June 30, 2018**

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	<u>Cemetery Fund</u>
<b>Revenues:</b>	
Perpetual care	\$ 17,600
Interest	<u>812</u>
Total revenues	<u>18,412</u>
<b>Expenditures:</b>	
Capital outlay	<u>21,374</u>
Excess (deficiency) of revenues over expenditures	(2,962)
<b>Other financing sources (uses):</b>	
Transfers (to) from other funds	<u>(585)</u>
Excess (deficiency) of revenues over expenditures and transfers	(3,547)
Net position, beginning of year	<u>381,430</u>
Net position, end of year	<u><u>\$ 377,883</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, 2018**

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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 section 2100 of the GASB Codification 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, 2018**

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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:

<b>Fund</b>	<b>Fund Type</b>	<b>Major/ Non-Major</b>
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**  
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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, 2019 (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 \$493,000, 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

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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 section 1400 of the GASB Codification, 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, net pension obligation, and post employment benefits payable.

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

**CITY OF HARRODSBURG, KENTUCKY**  
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are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**Other Post Employment Benefits.** For purposes of measuring other post employment benefits, deferred outflows of resources and deferred inflows of resources related to other post employment benefits and benefit expenses, information about the fiduciary net position of the 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 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.



**CITY OF HARRODSBURG, KENTUCKY**  
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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.

**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 \$0.672 per \$100 of assessed value for the year ended June 30, 2018. 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.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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, 2018, all of the City's deposits in financial institutions, (except \$91,000) were insured or collateralized. Funds collateralized with securities held by the pledging financial institution totaled \$11,544,438.

B. **Property Tax Calendar.** Property taxes for fiscal year 2018 were levied on October 1, 2017 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:

Department/Classification	Budget	Actual	Difference
Police department	\$ 1,839,863	\$ 2,021,991	\$ 182,128
Non-departmentalized	589,800	937,183	347,383

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, 2018:

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, 2018.
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, 2018.

**CITY OF HARRODSBURG, KENTUCKY**  
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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, 2018.
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, 2018.
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, 2018.
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, 2018.
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, 2018.
6. Annual deposits of \$800 are to be deposited until \$8,000 has been received under Loan F 15-031. This reserve was properly funded at June 30, 2018.
7. Annual deposits of \$3,600 are to be deposited until \$36,000 has been received under Loan A 15-046. This reserve was properly funded at June 30, 2018.
8. Annual deposits of \$2,000 are to be deposited until \$20,000 has been received under Loan A15-075. This reserve was not funded at June 30, 2018.
9. Annual deposits of \$3,900 are to be deposited until \$39,000 has been received under Loan A16-033. This reserve was not funded at June 30, 2018.
10. Annual deposits of \$7,200 are to be deposited until \$72,000 has been received under Loan F16-049. This reserve was not funded at June 30, 2018.

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 bonds on the next succeeding payment date are to be deposited. This reserve was properly funded at June 30, 2018.
- 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, 2018.
- c. *Debt Reserve Fund.* Monthly deposits of \$6,775 are to be deposited until the balance reaches \$812,600. 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, 2018.

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, 2018 this account was properly funded.

**CITY OF HARRODSBURG, KENTUCKY**  
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**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, 2018, the City's funds on deposit in financial institutions, were properly insured or collateralized (except \$91,000). Funds collateralized with securities held by pledging financial institutions totaled \$11,544,438.

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, 2018 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<b><i>Business-Type Activities:</i></b>				
Main Source Bank				
Savings	\$ 31,042	\$ 31,042	0.05 %	N/A
Whitaker Bank & Trust Co.				
Certificate of Deposit	12,024	12,024	0.20 %	11/14/18
Certificate of Deposit	35,306	35,306	0.33 %	11/20/18
Certificate of Deposit	180,405	180,405	0.40 %	10/17/18
Certificate of Deposit	22,093	22,093	0.33 %	11/20/18
Certificate of Deposit	381,110	381,110	0.33 %	11/20/18
Certificate of Deposit	<u>189,702</u>	<u>189,702</u>	0.40 %	9/28/18
	<u>\$ 851,682</u>	<u>\$ 851,682</u>		

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2018

- 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, 2018 are as follows:

	<b>Type of Restricted Assets</b>		
	<b>Cash</b>	<b>Certificates of Deposit</b>	<b>Total</b>
<b><i>Governmental Activities:</i></b>			
Municipal aid fund	\$ 94,849	\$	\$ 94,849
Tourism development fund	57,536		57,536
Alcohol beverage control fund	263,964		263,964
	<u>\$ 416,349</u>	<u>\$</u>	<u>\$ 416,349</u>
<b><i>Business-Type Activities:</i></b>			
Bond sinking fund	\$ 456,728	\$ 31,043	\$ 487,771
Note sinking fund	194,809		194,809
Depreciation fund	164,770	57,399	222,169
Debt reserve fund	198,486		198,486
Repairs and maintenance fund	3,013,861	381,110	3,394,971
	<u>\$ 4,028,654</u>	<u>\$ 469,552</u>	<u>\$ 4,498,206</u>

- C. **Receivables.** Receivables included as current assets on the Statement of Net Position, as of June 30, 2018, consists of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><i>Taxes and Licenses:</i></b>			
Payroll license	\$ 652,275	\$	\$ 652,275
Insurance license	437,415		437,415
Auto taxes	12,460		12,460
Net profits license	64,665		64,665
Returned checks	1,611		1,611
Restaurant tax	80,245		80,245
	<u>1,248,671</u>		<u>1,248,671</u>
<b><i>Intergovernmental:</i></b>			
Water treatment plant grant		29,928	29,928
Transportation grant	37,175		37,175
Police grants	25,539		25,539
State municipal aid	13,375		13,375
	<u>76,089</u>	<u>29,928</u>	<u>106,017</u>
<b><i>Other:</i></b>			
Wilderness Trace YMCA	95,000		95,000
Insurance overpayment	138,307	138,307	276,614
	<u>233,307</u>	<u>138,307</u>	<u>371,614</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
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	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<i>User Fees:</i>			
User fees		1,038,620	1,038,620
Less allowance for doubtful accounts		493,000	493,000
		545,620	545,620
Total receivables	\$ 1,558,067	\$ 713,855	\$ 2,271,922

- 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. Repayment of \$100,000 was received on the \$195,000 loan in fiscal 2017 leaving a balance of \$95,000. The \$35,000 operating loan was paid in full in fiscal 2018. The \$195,000 loan bears no interest. The remaining balance of \$95,000 is to be repaid as follows:

<b>Year Ending June 30</b>	<b>Principal</b>
2019	\$ 39,000
2020	39,000
2021	17,000
	\$ 95,000

- E. **Internal Balances.** The following interfund payables and receivables occurred as of June 30, 2018:

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
<i>Major Funds:</i>		
General fund	\$	\$ 4,600
<i>Non-Major Funds:</i>		
Municipal Aid Fund	4,600	
	\$ 4,600	\$ 4,600

The receivable due to the Municipal Aid Fund was due to one receipt deposited into the general fund bank account in error.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

F. **Capital Assets.** The activity related to capital assets for the fiscal year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Governmental Activities:</b>				
Land	\$ 627,929	\$	\$	\$ 627,929
Land improvements	1,695,878			1,695,878
Vehicles and equipment	3,676,333	429,008		4,105,341
Buildings	2,469,400			2,469,400
Infrastructure	994,913			994,913
Construction in progress	37,177	37,174		74,351
Total cost	<u>9,501,630</u>	<u>466,182</u>		<u>9,967,812</u>
Accumulated depreciation:				
Land improvements	1,065,192	46,315		1,111,507
Vehicles and equipment	2,504,725	230,741		2,735,466
Buildings	1,155,910	67,050		1,222,960
Infrastructure	237,417	20,938		258,355
Total accumulated depreciation	<u>4,963,244</u>	<u>365,044</u>		<u>5,328,288</u>
Total capital assets, net	<u>\$ 4,538,386</u>	<u>\$ 101,138</u>	<u>\$</u>	<u>\$ 4,639,524</u>
<b>Business-Type Activities:</b>				
Land	\$ 662,164	\$	\$	\$ 662,164
Vehicles and equipment	3,355,191	364,783		3,719,974
Buildings	172,985			172,985
Water utility system	12,767,490	2,521		12,770,011
Sewer utility system	12,154,695			12,154,695
Water and sewer treatment plant	40,195,916			40,195,916
Construction in progress	14,793,912	7,555,104		22,349,016
Total cost	<u>84,102,353</u>	<u>7,922,408</u>		<u>92,024,761</u>
Accumulated depreciation:				
Vehicles and equipment	2,062,021	167,919		2,229,940
Buildings	45,651	4,325		49,976
Water utility system	6,563,338	508,189		7,071,527
Sewer utility system	7,243,081	392,485		7,635,566
Water and sewer treatment plant	16,888,935	989,064		17,877,999
Total accumulated depreciation	<u>32,803,026</u>	<u>2,061,982</u>		<u>34,865,008</u>
Total capital assets, net	<u>\$ 51,299,327</u>	<u>\$ 5,860,426</u>	<u>\$</u>	<u>\$ 57,159,753</u>

**CITY OF HARRODSBURG, KENTUCKY**  
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Depreciation expense was charged to governmental activities as follows:

General government	\$ 8,482
Police department	100,299
Fire department	65,548
Street department	59,411
Cemeteries	32,974
Culture and recreation	94,446
Communications	<u>3,884</u>
Total depreciation expense	<u>\$ 365,044</u>

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

**Capital Leases**

1. 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 \$307,378 as of June 30, 2018.
2. In 2008, the City obtained \$1,800,671 financing for the purchase of water meters, which cost \$1,819,122. The 15-year capital lease agreement requires quarterly payments of \$41,749, including interest at 4.3% per annum. The lease is payable through 2023 and has a balance of \$677,661 as of June 30, 2018.
3. 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 \$15,420 as of June 30, 2018.
4. In 2013, the City obtained \$145,076 financing for the purchase of five police cruisers, which cost \$145,076. The 5-year capital lease agreement requires annual payments of \$26,592, including interest at 3.92% per annum. The lease was paid in full during 2018.
5. In 2018, the City obtained \$44,115 financing for the purchase of a dump truck, which cost \$44,115. The 5-year capital lease agreement requires annual payments of \$10,047, including interest at 6.95% per annum. This lease is payable through 2022 and has a balance of \$34,069 as of June 30, 2018.
6. In 2015, the City obtained \$62,030 financing for the purchase of two police cruisers, which cost \$62,030. 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 \$21,423 as of June 30, 2018.
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 \$11,143 as of June 30, 2018.
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 \$10,679 as of June 30, 2018.



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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 \$65,225 as of June 30, 2018.
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 \$31,136 as of June 30, 2018.
11. In 2018, the City obtained \$226,337 financing for the purchase of four police cruisers and two police trucks for the police department which cost \$226,337. The 6-year capital lease agreement requires annual payments of \$41,131 including interest at 3.73% per annum. The lease is payable through 2023 and has a balance of \$184,506 as of June 30, 2018.
12. In 2018, the City obtained \$73,439 financing for the purchase of police equipment for the police department which cost \$73,440. The 5-year capital lease agreement requires annual payments of \$15,480, including interest at 5% per annum. The lease is payable through 2022 and has a balance of \$54,891 as of June 30, 2018.

The following is a schedule of property and equipment and outstanding liabilities relating to capital lease agreements at June 30, 2018:

**Governmental Funds:**

<u>Property Leased</u>	<u>Asset Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Lease Payable</u>		
				<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Dump trucks	\$ 137,421	\$ 32,954	\$ 104,467	\$ 29,896	\$ 46,452	\$ 76,348
Fire trucks	429,896	46,521	383,375	62,200	260,598	322,798
Police cruisers	417,127	93,225	323,902	65,745	205,409	271,154
Police equipment	73,439	7,344	66,095	12,735	42,156	54,891
Excavators	42,485	21,243	21,242	8,993	1,686	10,679
	<u>\$1,100,368</u>	<u>\$ 201,287</u>	<u>\$ 899,081</u>	<u>\$ 179,569</u>	<u>\$ 556,301</u>	<u>\$ 735,870</u>

**Business Activity Funds:**

<u>Property Leased</u>	<u>Asset Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Lease Payable</u>		
				<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Water meters	<u>\$1,819,122</u>	<u>\$ 910,401</u>	<u>\$ 908,721</u>	<u>\$ 139,161</u>	<u>\$ 538,500</u>	<u>\$ 677,661</u>

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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, 2018, 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%.	\$ 11,143
60-month lease for the purchase of police cruisers. The lease bears interest at 3.801%.	21,423
60-month lease for the purchase of an excavator. The lease bears interest at 2.14%.	10,679
60-month lease for the purchase of police cruisers. The lease bears interest at 3.567%.	65,225
60-month lease for the purchase of police equipment. The lease bears interest at 5%.	54,891
72-month lease for the purchase of police cruisers. The lease bears interest at 3.73%.	184,506
60-month lease for the purchase a dump truck. The lease bears interest at 6.95%.	34,069
48-month lease for the purchase a dump truck. The lease bears interest at 5.45%.	31,136
84-month lease for the purchase of a fire truck. The lease bears interest at 3.25%.	307,378
48-month lease for the purchase of a truck for the fire department. The lease bears interest at 6.45%.	15,420
	<u>\$ 735,870</u>

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

Current liability	\$ 179,569
Non-current liability	556,301
	<u>\$ 735,870</u>

**Business-Type Activities.** As of June 30, 2018, 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%.	\$ 677,661
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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.	979,087
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.	532,110
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.	266,689

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<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>	298,331
<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>	2,171,737
<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>	303,821
<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>	1,320,718
<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. Payments of approximately \$17,000 are to be paid semi-annually through December 2037.</p>	600,924
<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>	709,590
<p>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.</p>	1,886,072

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***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.	360,000
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.	932,000
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.	2,098,000
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.	7,257,000
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.	1,693,000
Series 2016 bonds were issued in 2018 to finance the cost of extensions, additions and improvements to the existing sewer system of the City. The bonds bear interest at 2.75%. Principal is paid annually through December 2056 and interest is paid semi-annually.	8,840,000
	<u><u>\$ 40,926,740</u></u>

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	\$ 139,161	\$	\$	\$ 139,161
Current liability payable from restricted resources		454,764	381,500	836,264
Non-current liability	538,500	18,614,315	20,798,500	39,951,315
	<u>\$ 677,661</u>	<u>\$ 19,069,079</u>	<u>\$ 21,180,000</u>	<u>\$ 40,926,740</u>

**CITY OF HARRODSBURG, KENTUCKY**  
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- 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, 2018:

Type of Debt	Balance July 1, 2017	Proceeds	Payments	Balance June 30, 2018	Amounts Due Within One Year
<i>Governmental Activities:</i>					
Capital leases payable	\$ 607,078	\$ 343,892	\$ 215,100	\$ 735,870	\$ 179,569
Loans payable	54,129		54,129		
Total governmental activities	<u>\$ 661,207</u>	<u>\$ 343,892</u>	<u>\$ 269,229</u>	<u>\$ 735,870</u>	<u>\$ 179,569</u>
<i>Business-Type Activities:</i>					
Bonds payable	\$ 12,714,000	\$ 8,840,000	\$ 374,000	\$ 21,180,000	\$ 381,500
Capital leases payable	810,802		133,141	677,661	139,161
Loans payable	20,764,702	7,124,379	8,820,002	19,069,079	454,764
Total business-type activities	<u>\$ 34,289,504</u>	<u>\$ 15,964,379</u>	<u>\$ 9,327,143</u>	<u>\$ 40,926,740</u>	<u>\$ 975,425</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, 2018 are as follows:

	Year Ending June 30	Principal	Interest	Total
<i>Governmental Activities:</i>				
	2019	\$ 179,569	\$ 27,385	\$ 206,954
	2020	172,336	20,224	192,560
	2021	144,226	13,485	157,711
	2022	122,675	8,041	130,716
	2023	101,950	3,241	105,191
	2024	15,114	123	15,237
		<u>\$ 735,870</u>	<u>\$ 72,499</u>	<u>\$ 808,369</u>
<i>Proprietary Activities:</i>				
	2019	\$ 975,425	\$ 722,105	\$ 1,697,530
	2020	1,134,806	717,261	1,852,067
	2021	998,034	689,510	1,687,544
	2022	1,007,124	664,620	1,671,744
	2023	947,617	639,848	1,587,465
	2024 - 2028	3,772,061	2,924,118	6,696,179
	2029 - 2033	4,155,377	2,451,654	6,607,031
	2034 - 2038	3,896,134	1,917,053	5,813,187
	2039 - 2043	3,517,000	1,389,904	4,906,904
	2044 - 2048	3,221,000	873,590	4,094,590
	2049 - 2053	3,222,000	414,517	3,636,517
	2054 - 2057	1,484,500	85,110	1,569,610
		<u>\$ 28,331,078</u>	<u>\$ 13,489,290</u>	<u>\$ 41,820,368</u>

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Kentucky Infrastructure Authority notes A16-033, A15-074 and F16-049 totaling \$12,595,662 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, 2018 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	\$ 5,251
Fire department	12,518
Street department	<u>3,566</u>
	<u>21,335</u>

***Proprietary Activities:***

Water	261,287
Sewer	<u>261,287</u>
	<u>522,574</u>

Total interest expense	<u><u>\$ 543,909</u></u>
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Total interest capitalized in the proprietary fund was \$108,271.

M. **Net Position.** Net position at June 30, 2018 is identified as follows:

***Governmental Funds:***

***Restricted for:***

Police department	\$ 263,964
Roads	112,824
Tourism	<u>137,781</u>
Total net position, restricted	<u><u>\$ 514,569</u></u>

***Proprietary Funds:***

Bond sinking fund	\$ 487,771
Note sinking fund	194,809
Debt reserve fund	198,486
Depreciation fund	222,169
Repairs and maintenance fund	<u>3,394,971</u>
Total net position, restricted	<u><u>\$ 4,498,206</u></u>

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N. **Transfers.** The following operating transfers were made during fiscal year 2018:

	<b>Transfers In</b>	<b>Transfers Out</b>
Major Funds:		
General fund	\$ 100,585	\$
Non-major Funds:		
Alcohol Beverage Control fund		100,000
Fiduciary Fund:		
Cemetery fund		585
	<u>\$ 100,585</u>	<u>\$ 100,585</u>

The transfer of \$585 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.

\$100,000 was transferred from the Alcohol Beverage Control Fund to the General Fund to provide resources for the purchase of police equipment.

**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 (KRS) administers the CERS. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 16.510. 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, 2018, 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, 2018, participating employers contributed 19.18% of each employee's wages for non-hazardous job classifications and 31.55% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of KRS are financed through employer contributions and investment earnings.

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Plan members who began participating on, or after January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% 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 \$650,645 for the year ended June 30, 2018, or 100% of the required contribution. The contribution was allocated \$480,603 to the CERS pension fund and \$170,042 to the CERS insurance fund.

**Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources.** At June 30, 2018, the City reported a liability of \$6,746,850 in the governmental activities fund and \$1,687,617 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, 2017, 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, 2017, the City's proportion was .105664% for non-hazardous job classifications and .100552% for hazardous job classifications. For 2016, the City's proportion was .103151% for non-hazardous job classification and .099689% for hazardous job classifications.

For the year ended June 30, 2018, the City recognized pension expense of \$1,339,083 in the governmental activities fund and \$353,052 in the business-type activities fund. At June 30, 2018, 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	\$ 88,092	\$ 114,159	\$ 2,093	\$ 42,839
Changes of assumptions	1,278,609		311,411	
Net difference between projected and actual earnings on Plan investments	503,732	428,448	133,657	112,784
Changes in proportion and differences between City contributions and proportionate share of contributions	192,861	267,861	68,166	
City contributions subsequent to the measurement date	<u>367,256</u>		<u>98,866</u>	
Total	<u>\$ 2,430,550</u>	<u>\$ 810,468</u>	<u>\$ 614,193</u>	<u>\$ 155,623</u>



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The \$367,256 and \$98,866 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Year ending June 30,			
2019	\$ 540,568	\$ 175,680	\$ 716,248
2020	536,107	144,738	680,845
2021	258,445	60,956	319,401
2022	<u>(82,294)</u>	<u>(21,670)</u>	<u>(103,964)</u>
Total	<u>\$ 1,252,826</u>	<u>\$ 359,704</u>	<u>\$ 1,612,530</u>

**Actuarial Assumptions.** The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Inflation	2.30 %	3.25 %
Payroll growth	3.05 %	4.00 %
Assumed investment rate of return	6.25 %	7.50 %

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.

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Projected future benefit payments for all current plan members were projected through 2018. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Real Rate of Return
US Equity *	17.50 %	5.97 %
International Equity *	17.50 %	7.85 %
Global Bonds	4.00 %	2.63 %
Global Credit	2.00 %	3.63 %
High Yield	7.00 %	5.75 %
Emerging Market Debt	5.00 %	5.50 %
Private Credit	10.00 %	8.75 %
Real Estate *	5.00 %	7.63 %
Absolute Return	10.00 %	5.63 %
Real Return *	10.00 %	6.13 %
Private Equity	10.00 %	8.25 %
Cash	2.00 %	1.88 %
Total	<u>100.00 %</u>	<u>6.56 %</u>

\* Long-Term expected real rates of return may vary by plans depending on the risk tolerance of the plan.

**Discount Rate.** The discount rate used to measure the total pension liability was 6.25%, which is a 1.25% decrease from the prior year. 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 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

**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 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability- Non-Hazardous	City's Proportionate Share of Net Pension Liability- Hazardous
1% decrease	5.25 %	\$ 7,800,419	\$ 2,828,500
Current discount rate	6.25 %	6,184,839	2,249,628
1% increase	7.25 %	4,833,418	1,771,565

**V. POST-EMPLOYMENT BENEFITS**

All eligible retired City of Harrodsburg employees participating in the CERS receive health care benefits in conjunction with their pension service benefits. Retiree cost depends on length of service prior to retirement. Employer contribution rates are established annually by the KRS Board of Trustees. KRS issues separate stand-alone financial statements for the statewide multiple employer

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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cost-sharing plan that provides other post-employment benefits for local government employees participating in CERS. The City of Harrodsburg has employees that participate in CERS hazardous and nonhazardous plans. At the time of completion of these financial statements, KRS has not yet released their financial statements for the year ended June 30, 2018. The following information was extracted from the KRS financial statements for the year ended June 30, 2017.

Under the provisions of Kentucky Revised Statute Section 61.701, the board of trustees of KRS administers the KRS Insurance Fund. The KRS Insurance Fund was established as a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS: (1) Kentucky Employees Retirement System (KRS); (2) CERS; and (3) State Police Retirement System (SPRS). The assets of the KRS Insurance Fund are commingled for investment purposes.

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the KRS Board. The Board has established an investment committee which is specifically charged with the oversight and investment of plan assets. The investment committee has adopted a statement of investment policy that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of KRS. The investment committee establishes specific investment guidelines for the following types of investments:

**Equity Investments** may be made in common stock; securities convertible into common stock; preferred stock of publicly traded companies on stock markets, asset class relevant exchange traded funds, or other type of securities contained in a manager's benchmark.

**Fixed Income Investments** may be made in U.S. Government and Agency bonds; investment grade U.S. corporate credit; investment grade non-U.S. corporate credit; non-investment grade U.S. corporate credit including both bonds and bank loans; non-investment grade non-U.S. corporate credit including bonds and bank loans; municipal bonds; non-U.S. sovereign debt; mortgages, including residential mortgage backed securities; commercial mortgage backed securities and whole loans; asset-backed securities and emerging market debt (EMD), including both sovereign EMD and corporate EMD; and asset class relevant ETFs.

**Mortgages** may be made in real estate mortgages on direct basis or in the form of mortgage pool investments.

**Private Equity/Equity Real Estate/Real Return/Absolute Return Investments** may be made for the purpose of creating a diversified portfolio of alternative investments. The board may invest in real estate or alternative investments including, but not limited to and without limitation: venture capital, private equity, real assets, and absolute return investments.

**Cash Equivalent Securities** may be made in publicly traded investment grade corporate bonds; variable rate demand notes; government and agency bonds; mortgages, municipal bonds; short term investment funds; money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper); and repurchase agreements related to the above instruments. All instruments shall have a maturity at the time of purchase that does not exceed two years.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The following table shows the investment allocation policy vs the actual investments as of June 30, 2017:

	<b>Asset Allocation - Policy</b>	<b>Asset Allocation - Actual</b>
U.S. Equity	26.50 %	25.77 %
International Equity	26.50 %	26.73 %
Global Fixed	6.00 %	5.42 %
Credit Fixed	6.00 %	9.48 %
Real Return	8.00 %	8.36 %
Private Equity	10.00 %	9.17 %
Real Estate	5.00 %	4.74 %
Absolute Return	10.00 %	7.56 %
Cash	2.00 %	2.77 %
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>

The employer rates allocable to the health insurance benefits was 4.73% in 2017 and 4.64% in 2016 for nonhazardous employees and 9.35% in 2017 and 12.69% in 2016 for hazardous employees. The contribution rates were created by statute and were 100% funded during 2018, 2017, 2016 and 2015. At June 30, 2018, the City of Harrodsburg owed \$19,340 to the plan for the payroll cost incurred during June, 2018. This amount is due to be paid by July 31, 2018.

The KRS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year ended June 30, 2017, insurance premiums withheld from benefit payments for members of the CERS non-hazardous and hazardous plans were \$22.9 million and \$2.7 million, respectively. For the year ended June 30, 2016, insurance premiums withheld from benefit payments for members of CERS non-hazardous and hazardous plans were \$22.6 million and \$2.2 million, respectively. The contribution by the City of Harrodsburg, Kentucky totaled \$210,314 for the year ended June 30, 2018. The KRS Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

The amount of contribution paid by the funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>Portion Paid by KRS Insurance Fund</b>
20 + years	100%
15 - 19 years	75%
10 - 14 years	50%
4 - 9 years	25%
Less than 4 years	0%

As a result of House Bill 290 enacted by the 2004 Kentucky General Assembly, medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

for every year of earned service without regard to a maximum dollar amount. Hazardous employees earn \$15 per month with the same participation dates. In addition, a hazardous employee's spouse receives \$10 per month for insurance benefits for each year of a deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to change in the consumer price index for all urban consumers.

Health insurance benefits are not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the board of trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the board of trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years.

The following table presents the schedule of funding progress for the KRS Insurance Fund as a whole:

<b>Retirement System</b>	<b>Actuarial Value of Assets</b>	<b>AAL Entry Age Normal</b>	<b>Funded</b>	<b>Covered Payroll</b>	<b>Unfunded as Percent of Covered Payroll</b>
KERS Non-Hazardous	\$ 823,917,560	\$ 2,683,496,055	30.7 %	\$ 1,531,534,820	121.4 %
KERS Hazardous	493,458,367	419,439,652	117.6 %	162,418,070	(45.6)%
CERS Non-Hazardous	2,227,401,268	3,355,151,286	66.4 %	2,452,407,113	46.0 %
CERS Hazardous	1,196,779,877	1,788,432,768	66.9 %	541,632,946	109.2 %
SPRS	180,463,820	276,641,361	65.2 %	48,598,296	197.9 %
<b>Total Insurance Funds</b>	<b>\$ 4,922,020,892</b>	<b>\$ 8,523,161,122</b>	<b>57.7 %</b>	<b>\$ 4,736,591,245</b>	<b>76.0 %</b>

**Actuarial Methods and Assumptions.** The total OPEB liability as of June 30, 2017 was calculated using the following actuarial assumptions based on the June 30, 2015, actuarial valuation report.:

	<b>KERS Non-Hazardous</b>	<b>KERS Hazardous</b>	<b>CERS Non-Hazardous</b>	<b>CERS Hazardous</b>	<b>SPRS</b>
Inflation	3.25 %	3.25 %	3.25 %	3.25 %	3.25 %
Salary increases	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %
Investment rate of return	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %
Mortality	RP-2000 combined mortality table, projected to 2013 with scale BB (set back 1 year for females)	RP-2000 combined mortality table, projected to 2013 with scale BB (set back 1 year for females)	RP-2000 combined mortality table, projected to 2013 with scale BB (set back 1 year for females)	RP-2000 combined mortality table, projected to 2013 with scale BB (set back 1 year for females)	RP-2000 combined mortality table, projected to 2013 with scale BB (set back 1 year for females)

**CITY OF HARRODSBURG, KENTUCKY**  
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**For the Year Ended June 30, 2018**

	<b>KERS Non-Hazardous</b>	<b>KERS Hazardous</b>	<b>CERS Non-Hazardous</b>	<b>CERS Hazardous</b>	<b>SPRS</b>
Healthcare trend rates - pre 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.5% and gradually decreasing to an intimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.5% and gradually decreasing to an intimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.5% and gradually decreasing to an intimate trend rate of 5.00% over a period of 5 years.
Healthcare trend rates - post 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

**Discount rate.** The following table presents the discount rates used to measure the total OPEB liability:

	<b>KERS Non-Hazardous</b>	<b>KERS Hazardous</b>	<b>CERS Non-Hazardous</b>	<b>CERS Hazardous</b>	<b>SPRS</b>
<b>As of June 30, 2017</b>					
Single discount rate	5.83 %	5.87 %	5.84 %	5.96 %	6.01 %
Long-term expected rate of return	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %
Long-term municipal bond rate (1)	3.56 %	3.56 %	3.56 %	3.56 %	3.56 %
<b>As of June 30, 2016</b>					
Single discount rate	6.90 %	7.20 %	6.89 %	7.37 %	7.42 %
Long-term expected rate of return	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %
Long-term municipal bond rate (1)	2.92 %	2.92 %	2.92 %	2.92 %	2.92 %

(1) *Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year municipal GO AA Index" as of June 30, 2017 (or as of June 30, 2016).*

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the board. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuarial's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**Sensitivity of the net OPEB liability to changes in the discount rate.** The following table presents the City's proportionate share of the net OPEB liability, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	City's Proportionate Percentage of Net OPEB Liability - Non Hazardous	Discount Rate	City's Proportionate Share of Net OPEB Liability - Non- Hazardous	City's Proportionate Percentage of Net OPEB Liability - Hazardous	Discount Rate	City's Proportionate Share of Net OPEB Liability - Hazardous
1% decrease	0.105664 %	4.84 %	\$ 2,702,937	0.100552 %	4.96 %	\$ 1,113,969
Current discount rate	0.105664 %	5.84 %	2,124,208	0.100552 %	5.96 %	831,235
1% increase	0.105664 %	6.84 %	1,642,614	0.100552 %	6.96 %	599,912

The allocation of the employer's proportionate share of the net OPEB liability and OPEB expense was determined using the employer's actual contributions for FY 2017 compared to all employers in the plan. The change in the proportionate from the prior year was not determined. The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%. The City's OPEB cost for June 30, 2018 was \$4,713.

**Sensitivity of the net OPEB liability to changes in healthcare cost trend rates.** The following table presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	Discount Rate	City's Proportionate Share of Net OPEB Liability - Non-Hazardous	Discount Rate	City's Proportionate Share of Net OPEB Liability - Hazardous
1% decrease	4.84 %	\$ 1,629,377	4.96 %	\$ 588,418
Current discount rate	5.84 %	2,124,208	5.96 %	831,235
1% increase	6.84 %	2,767,459	6.96 %	1,131,757

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The deferred outflows of resources and deferred inflows of resources related to the City's OPEB from the following sources are reflected below:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience in the measurement of the total OPEB liability	\$	\$ 6,227	\$	\$ 1,610
Changes in assumptions or other inputs	642,701		126,121	
Net difference between projected and actual earnings on plan investments		125,150		27,392
Changes in the employer's contributions and the employers proportionate share of plan contributions		3,749		1,345
The employer's contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability	<u>148,260</u>		<u>36,262</u>	
Total	<u>\$ 790,961</u>	<u>\$ 135,126</u>	<u>\$ 162,383</u>	<u>\$ 30,347</u>

The \$148,260 and \$36,262 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 OPEB in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ 116,894	\$ 16,479
2020	116,894	16,479
2021	116,894	16,479
2022	77,326	16,479
2023	62,163	23,327
Thereafter	<u>17,404</u>	<u>6,531</u>
	<u>\$ 507,575</u>	<u>\$ 95,774</u>



**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**VI. INSURANCE**

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

Type of Coverage	Insured Amount	Deductible
General liability	\$ 5,000,000	\$
Public officials liability	5,000,000	10,000
Law enforcement liability	5,000,000	
Auto liability	5,000,000	
Workers compensation	4,000,000	
Property	38,103,837	1,000
Equipment	1,341,198	500

**VII. 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, 2018 related to these potential liabilities.

The City has committed to pay Campbellsville University - Harrodsburg branch \$40,000 over the next four 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, \$49,568 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, 2018 is \$19,230,606. The balance remaining on the contracts at June 30, 2018 is \$1,068,655.

Subsequent to June 30, 2018, the City has entered into an agreement for the general fund to purchase property at a cost of \$675,000.

**VIII. ECONOMIC DEPENDENCY**

**General Government Revenue.** The City collected approximately \$1,796,000 representing 70%, of its payroll license fees and 28% of the total revenues of the General Fund from ten employers within the City limits.

**Municipal Waterworks and Sewer System Revenue.** The billings to twenty customers totaled approximately \$2,890,000 which represented 56% of the System's operating revenues.

**IX. RESTATEMENT OF NET POSITION**

**Implementation of New Accounting Standard GASB Statement No. 75.** During 2018, the City implemented GASB Statement no 75, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans, which addresses financial reporting for state and local government employers whose employees are provided with post employment benefits.

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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The guidance contained in Statement 75 requires governments to calculate and report the costs and obligations associated with post employment benefits. Under the new standards GASB requires that cost sharing governments report a net post employment liability, post employment expense and post employment deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Net position, at beginning of year	\$ 4,020,587	\$ 21,034,977	\$ 25,055,564
Beginning net OPEB liability	<u>(1,708,223)</u>	<u>(454,636)</u>	<u>(2,162,859)</u>
Net position, at beginning of year, as restated	<u>\$ 2,312,364</u>	<u>\$ 20,580,341</u>	<u>\$ 22,892,705</u>

## **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
- Schedule of Funding Progress - Other Post Employment Benefits
- Schedule of Net OPEB Liability - Other Post Employment Benefits
- Schedule of Contributions - Other Post Employment Benefits
- 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 Five Fiscal Years\***

	Non-Hazardous					Hazardous				
	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Employee Payroll	City's Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Employee Payroll	City's Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.105664%	\$ 6,184,839	\$ 2,507,438	246.66%	53.30%	0.100552%	\$ 2,249,628	\$ 477,009	471.61%	49.80%
2017	0.103151%	5,078,759	2,569,834	197.63%	55.50%	0.099689%	1,710,600	551,977	309.90%	53.95%
2016	0.096361%	4,143,084	2,411,969	171.77%	59.97%	0.112177%	1,722,032	505,362	340.75%	57.52%
2015	0.084193%	3,244,376	2,232,126	145.35%	66.80%	0.152137%	1,201,824	581,643	206.63%	63.46%
2014	0.084193%	3,083,695	1,912,164	161.27%	61.22%	0.152137%	2,033,902	753,520	269.92%	57.74%

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

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017.

1. The assumed investment rate of return was decreased from 7.50% to 6.25%.
2. The assumed rate of inflation was reduced from 3.25% to 2.30%.
3. Payroll growth assumption was reduced from 4.00% to 3.05%.

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 measurement 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 Six Fiscal Years\***

	2018		2017		2016		2015		2014		2013	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Contractually required employer contribution	\$ 480,927	\$ 150,496	\$ 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	480,927	150,496	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	\$ 0	\$ 0
City's covered employee payroll	\$ 2,507,438	\$ 477,009	\$ 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	19.18%	31.55%	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.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017.

1. The assumed investment rate of return was decreased from 7.50% to 6.25%.
2. The assumed rate of inflation was reduced from 3.25% to 2.30%.
3. Payroll growth assumption was reduced from 4.00% to 3.05%.

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**  
**SCHEDULE OF FUNDING PROGRESS**  
**OTHER POST EMPLOYMENT BENEFITS**  
**Last Fiscal Year**

Actuarial Valuation Date	Non-Hazardous		Hazardous		Covered Payroll		Unfunded liability as A Percentage of Covered Payroll	
	Employer Proportion of Collective Net OPEB Liability Percentage	Amount	Employer Proportion of Collective Net OPEB Liability Percentage	Amount	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
6/30/2017	0.105664	\$2,124,208	0.100552	\$831,235	\$2,507,438	\$477,009	84.72%	174.26%

Notes:

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

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017.

1. The assumed investment rate of return was 6.25%.
2. The assumed rate of inflation was 2.30%.
3. Payroll growth assumption was 3.05%.
4. The healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years for post-65.
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.

**CITY OF HARRODSBURG, KENTUCKY**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**Last Fiscal Year**

	<b>KERS</b>		<b>CERS</b>		<b>SPRS</b>
	<b>Non-Hazardous</b>	<b>Harardous</b>	<b>Non-Hazardous</b>	<b>Harardous</b>	
Total OPEB Liability	\$ 2,535,962,000	\$ 6,061,000	\$ 2,010,342,000	\$ 826,672,000	\$ 134,396,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	24.40%	98.80%	52.40%	59.00%	57.10%

Notes:

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

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017.

1. The assumed investment rate of return was 6.25%.
2. The assumed rate of inflation was 2.30%.
3. Payroll growth assumption was 3.05%.
4. The healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65.  
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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 exeriece investigation is conducted.

**CITY OF HARRODSBURG, KENTUCKY**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**OTHER POST EMPLOYMENT BENEFITS**  
**Last Fiscal Year**

Non-Hazardous			Hazardous		
Fiscal Year Ended 30-Jun	Annual Required Contribution	Percentage Contributed	Fiscal Year Ended 30-Jun	Annual Required Contribution	Percentage Contributed
2018	123,342	100%	2018	46,700	100%
2017	121,687	100%	2017	51,610	100%

Notes:

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

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017.

1. The assumed investment rate of return was 6.25%.
2. The assumed rate of inflation was 2.30%.
3. Payroll growth assumption was 3.05%.
4. The healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years for post-65.
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.



**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**For the Year Ending June 30, 2018**

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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 ordinance's 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, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes	\$ 1,833,408	\$ 1,833,408	\$ 1,902,491	\$ 69,083
Licenses, permits, and fees	3,397,333	3,397,333	3,370,669	(26,664)
Intergovernmental revenue	464,452	464,452	828,795	364,343
Service charges	327,600	327,600	123,430	(204,170)
Other	362,886	362,886	148,942	(213,944)
<b>Total revenues</b>	<u>6,385,679</u>	<u>6,385,679</u>	<u>6,374,327</u>	<u>(11,352)</u>
<b>Expenditures:</b>				
General government	561,926	561,926	524,950	36,976
Police department	1,839,863	1,839,863	2,021,991	(182,128)
Fire department	1,460,132	1,460,132	1,174,158	285,974
Street department	745,448	745,448	632,805	112,643
Cemeteries	473,194	473,194	423,475	49,719
Culture and recreation	240,591	240,591	218,971	21,620
Communications	474,725	474,725	291,181	183,544
Non-departmentalized	589,800	589,800	937,183	(347,383)
<b>Total expenditures</b>	<u>6,385,679</u>	<u>6,385,679</u>	<u>6,224,714</u>	<u>160,965</u>
Excess (deficiency) of revenues over expenditures before other financing sources			<u>149,613</u>	<u>149,613</u>
<b>Other financing sources (uses):</b>				
Transfers (to) from other funds			100,585	100,585
Lease proceeds			343,892	343,892
<b>Total other financing sources (uses)</b>			<u>444,477</u>	<u>444,477</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)			594,090	594,090
Fund balance, beginning of year	<u>3,551,477</u>	<u>3,551,477</u>	<u>3,551,477</u>	
Fund balance, end of year	<u>\$ 3,551,477</u>	<u>\$ 3,551,477</u>	<u>\$ 4,145,567</u>	<u>\$ 594,090</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUE - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2018**

	<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	\$ 304,338	\$ (5,662)
Motor vehicle	99,983	99,983	105,427	5,444
Tangible personal property	40,000	40,000	30,288	(9,712)
Public service company	10,800	10,800	18,534	7,734
Delinquent	375	375		(375)
Insurance premium	1,294,000	1,294,000	1,373,844	79,844
Bank deposits	60,000	60,000	54,816	(5,184)
Payments in lieu of taxes	18,250	18,250	15,244	(3,006)
	<u>1,833,408</u>	<u>1,833,408</u>	<u>1,902,491</u>	<u>69,083</u>
<b>Licenses, permits, and fees:</b>				
Payroll license fees	2,475,000	2,475,000	2,557,804	82,804
Net profits license fees	260,000	260,000	205,412	(54,588)
Business license fees	19,000	19,000	21,725	2,725
Street license fees	1,575	1,575	1,575	
ABC license fees	100,000	100,000		(100,000)
Franchise fee - cable television	56,758	56,758	52,055	(4,703)
Franchise fee - electric	405,000	405,000	447,719	42,719
Franchise fee - natural gas	80,000	80,000	84,379	4,379
	<u>3,397,333</u>	<u>3,397,333</u>	<u>3,370,669</u>	<u>(26,664)</u>
<b>Intergovernmental revenue:</b>				
Police pay incentive	76,000	76,000	76,624	624
Firefighters pay incentive	68,000	68,000	77,733	9,733
Police court fines	15,250	15,250	13,017	(2,233)
911 reimbursements	202,100	202,100	151,822	(50,278)
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	71,300	71,300	477,796	406,496
	<u>464,452</u>	<u>464,452</u>	<u>828,795</u>	<u>364,343</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF REVENUE - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Service charges:</b>				
Rental income	15,000	15,000	18,544	3,544
Police arrest fees	5,000	5,000	3,873	(1,127)
Police and fire cost recovery	200,000	200,000		(200,000)
Interment, Spring Hill	68,000	68,000	69,450	1,450
Lots sold, Spring Hill	27,000	27,000	20,500	(6,500)
Interment, Maple Grove	3,850	3,850	1,200	(2,650)
Lots sold, Maple Grove	750	750	1,750	1,000
Monument bases	8,000	8,000	8,113	113
	<u>327,600</u>	<u>327,600</u>	<u>123,430</u>	<u>(204,170)</u>
<b>Other:</b>				
Parking fines	200	200	50	(150)
Penalties and interest	19,000	19,000	10,225	(8,775)
Interest earned	3,000	3,000	3,055	55
Drug investigation receipts	5,000	5,000	12,892	7,892
Sale of surplus property	80,000	80,000	6,679	(73,321)
Insurance claim receipts			8,563	8,563
Repayment of loan			35,000	35,000
Donations			151	151
Miscellaneous	255,686	255,686	72,327	(183,359)
	<u>362,886</u>	<u>362,886</u>	<u>148,942</u>	<u>(213,944)</u>
<b>Total revenues</b>	<u>\$ 6,385,679</u>	<u>\$ 6,385,679</u>	<u>\$ 6,374,327</u>	<u>\$ (11,352)</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>General government:</b>				
Salaries and wages	\$ 331,047	\$ 331,047	\$ 313,138	\$ 17,909
Fringe benefits	116,629	116,629	98,673	17,956
Contractual services	65,000	65,000	77,473	(12,473)
Materials and supplies	28,000	28,000	18,020	9,980
Other costs	16,000	16,000	15,698	302
Capital outlay	5,250	5,250	1,948	3,302
	<u>561,926</u>	<u>561,926</u>	<u>524,950</u>	<u>36,976</u>
<b>Police department:</b>				
Salaries and wages	903,341	903,341	885,280	18,061
Fringe benefits	477,047	477,047	376,780	100,267
Contractual services	89,250	89,250	115,569	(26,319)
Materials and supplies	132,700	132,700	153,398	(20,698)
Other costs	149,500	149,500	52,995	96,505
Capital outlay	26,025	26,025	316,360	(290,335)
Debt service	62,000	62,000	121,609	(59,609)
	<u>1,839,863</u>	<u>1,839,863</u>	<u>2,021,991</u>	<u>(182,128)</u>
<b>Fire department:</b>				
Salaries and wages	733,313	733,313	674,747	58,566
Fringe benefits	411,069	411,069	313,633	97,436
Contractual services	111,300	111,300	45,254	66,046
Materials and supplies	79,200	79,200	37,810	41,390
Other costs	27,250	27,250	22,822	4,428
Capital outlay	20,000	20,000	7,370	12,630
Debt service	78,000	78,000	72,522	5,478
	<u>1,460,132</u>	<u>1,460,132</u>	<u>1,174,158</u>	<u>285,974</u>
<b>Street department:</b>				
Salaries and wages	221,437	221,437	188,438	32,999
Fringe benefits	130,808	130,808	77,071	53,737
Contractual services	241,000	241,000	232,333	8,667
Materials and supplies	57,900	57,900	47,928	9,972
Other costs	9,750	9,750	8,724	1,026
Capital outlay	51,500	51,500	46,486	5,014
Debt service	33,053	33,053	31,825	1,228
	<u>745,448</u>	<u>745,448</u>	<u>632,805</u>	<u>112,643</u>

Continued

**CITY OF HARRODSBURG, KENTUCKY**  
**STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Cemeteries:</b>				
Salaries and wages	193,234	193,234	169,657	23,577
Fringe benefits	111,026	111,026	78,419	32,607
Contractual services	89,350	89,350	78,662	10,688
Materials and supplies	42,000	42,000	36,609	5,391
Other costs	7,500	7,500	5,966	1,534
Capital outlay	10,000	10,000	44,115	(34,115)
Debt service	20,084	20,084	10,047	10,037
	<u>473,194</u>	<u>473,194</u>	<u>423,475</u>	<u>49,719</u>
<b>Culture and recreation:</b>				
Salaries and wages	85,355	85,355	79,521	5,834
Fringe benefits	50,736	50,736	44,430	6,306
Contractual services	71,450	71,450	72,573	(1,123)
Materials and supplies	17,250	17,250	14,607	2,643
Other costs	7,800	7,800	7,840	(40)
Debt service	8,000	8,000		8,000
	<u>240,591</u>	<u>240,591</u>	<u>218,971</u>	<u>21,620</u>
<b>Communications:</b>				
Salaries and wages	255,243	255,243	173,873	81,370
Fringe benefits	112,782	112,782	71,755	41,027
Contractual services	51,100	51,100	29,981	21,119
Materials and supplies	16,700	16,700	7,221	9,479
Other costs	3,900	3,900	3,469	431
Capital outlay	35,000	35,000	4,882	30,118
	<u>474,725</u>	<u>474,725</u>	<u>291,181</u>	<u>183,544</u>
<b>Non-departmentalized:</b>				
Insurance	300,000	300,000	242,719	57,281
Grants and subsidies	289,800	289,800	694,464	(404,664)
	<u>589,800</u>	<u>589,800</u>	<u>937,183</u>	<u>(347,383)</u>
	<u>\$ 6,385,679</u>	<u>\$ 6,385,679</u>	<u>\$ 6,224,714</u>	<u>\$ 160,965</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, 2018**

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 94,849	\$ 57,536	\$ 263,964	\$ 416,349
Accounts receivable, taxes		80,245		80,245
Accounts receivable, intergovernmental	13,375			13,375
Due from other funds	4,600			4,600
	<u>4,600</u>	<u>80,245</u>	<u>263,964</u>	<u>416,349</u>
Total assets	<u>\$ 112,824</u>	<u>\$ 137,781</u>	<u>\$ 263,964</u>	<u>\$ 514,569</u>
<b>FUND BALANCE</b>				
Fund balance:				
Restriicted for:				
Roads	\$ 112,824	\$	\$	\$ 112,824
Tourism		137,781		137,781
Police			263,964	263,964
	<u>112,824</u>	<u>137,781</u>	<u>263,964</u>	<u>514,569</u>
Total fund balance	<u>\$ 112,824</u>	<u>\$ 137,781</u>	<u>\$ 263,964</u>	<u>\$ 514,569</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR FUNDS**  
**For the Year Ended June 30, 2018**

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
<b>Revenues:</b>				
Intergovernmental revenue	\$ 168,236	\$ 14,650	\$	\$ 182,886
Restaurant tax collections		318,066		318,066
Alcohol license fee			211,892	211,892
Miscellaneous	4,600			4,600
Interest income	87	42	735	864
	<u>172,923</u>	<u>332,758</u>	<u>212,627</u>	<u>718,308</u>
Total revenues				
<b>Expenditures:</b>				
Grants and subsidies		346,839		346,839
Street department:				
Paving	198,548			198,548
Materials and supplies	21,008			21,008
Debt service	56,038			56,038
	<u>275,594</u>	<u>346,839</u>	<u></u>	<u>622,433</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(102,671)	(14,081)	212,627	95,875
<b>Other financing sources (uses):</b>				
Transfers (to) from other funds			(100,000)	(100,000)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(102,671)	(14,081)	112,627	(4,125)
Fund balance, beginning of year	<u>215,495</u>	<u>151,862</u>	<u>151,337</u>	<u>518,694</u>
Fund balance, end of year	<u>\$ 112,824</u>	<u>\$ 137,781</u>	<u>\$ 263,964</u>	<u>\$ 514,569</u>

**PROPRIETARY FUND**

**CITY OF HARRODSBURG, KENTUCKY**  
**BALANCE SHEET**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
**June 30, 2018**

**ASSETS**

Current assets:

Cash	\$ 3,866,197
Certificates of deposit	382,130
Accounts receivable (net of allowance for doubtful accounts of \$ 493,000)	545,620
Accounts receivable, other	138,307
Accounts receivable, grantors	29,928
Prepaid expenses	<u>241,215</u>
	<u>5,203,397</u>

Restricted assets:

Cash	4,028,654
Certificates of deposit	<u>469,552</u>
	<u>4,498,206</u>

Capital assets:

Water utility system	12,770,011
Sewer utility system	12,154,695
Water and sewer treatment plant	40,195,916
Equipment and vehicles	3,719,974
Buildings and land	835,149
Construction in progress	<u>22,349,016</u>
	92,024,761

Less accumulated depreciation 34,865,008

Capital assets, net 57,159,753

Other long term assets:

Bond issuance costs 100,614

Total assets \$ 66,961,970

Deferred outflow of resources \$ 776,576

**LIABILITIES AND NET POSITION**

Current liabilities:

Accounts payable	\$ 79,584
Accounts payable, construction	969,874
Payroll liabilities	73,151
Unearned revenue	1,777,832
Customer deposits	283,519
Lease payable	<u>139,161</u>
	<u>3,323,121</u>

Liabilities payable from restricted assets:

Accrued interest payable	52,306
Current portion of loans payable	454,764
Current portion of bonds payable	<u>381,500</u>
	<u>888,570</u>

Non-current liabilities:

Bonds payable	20,798,500
Loans payable	18,614,315
Lease payable	538,500
Net pension obligation	1,687,617
Post employment benefits payable	<u>579,619</u>
	<u>42,218,551</u>

Total liabilities \$ 46,430,242

Deferred inflow of resources \$ 185,970

Net position:

Net investment in capital assets	\$ 16,233,013
Restricted	4,498,206
Unrestricted	<u>391,115</u>

Total net position \$ 21,122,334

**CITY OF HARRODSBURG, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES AND EXPENSES**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
**For the Year Ended June 30, 2018**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
<b>Operating revenues:</b>			
Water sales	\$ 2,286,713	\$	\$ 2,286,713
Water taps	13,677		13,677
Sewer charges		2,508,612	2,508,612
Sewer taps		16,856	16,856
Sewer surcharge		4,499	4,499
Pre-treatment charges		141,649	141,649
Penalties	72,016	72,015	144,031
Other revenue	13,755	13,755	27,510
Total operating revenues	<u>2,386,161</u>	<u>2,757,386</u>	<u>5,143,547</u>
<b>Operating expenses:</b>			
Water operations	1,806,463		1,806,463
Sewer operations		1,215,041	1,215,041
Total operating expenses	<u>1,806,463</u>	<u>1,215,041</u>	<u>3,021,504</u>
Operating income before depreciation, amortization, and bad debts	<u>579,698</u>	<u>1,542,345</u>	<u>2,122,043</u>
Depreciation expense	1,030,991	1,030,991	2,061,982
Amortization expense	830	830	1,660
Bad debts	26,500	26,500	53,000
Total depreciation, amortization, and bad debts	<u>1,058,321</u>	<u>1,058,321</u>	<u>2,116,642</u>
Operating income (loss)	<u>(478,623)</u>	<u>484,024</u>	<u>5,401</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	4,551	4,552	9,103
Garbage service	623,746		623,746
Sales tax	123,162		123,162
Utility tax	46,982		46,982
KY River withdrawal fee	133,936		133,936
Other income	14,515	14,515	29,030
Interest expense	(261,287)	(261,287)	(522,574)
Garbage service	(582,879)		(582,879)
Sales tax paid	(113,544)		(113,544)
Utility tax paid	(47,788)		(47,788)
KY River withdrawal fee	(169,025)		(169,025)
Non-operating revenues (expenses), net	<u>(227,631)</u>	<u>(242,220)</u>	<u>(469,851)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	<u>(706,254)</u>	<u>241,804</u>	<u>(464,450)</u>
Capital grant proceeds		1,006,443	1,006,443
Increase (decrease) in net assets	<u>\$ (706,254)</u>	<u>\$ 1,248,247</u>	<u>541,993</u>
Net position, beginning of year (as restated)			<u>20,580,341</u>
Net position, end of year			<u>\$ 21,122,334</u>

**CITY OF HARRODSBURG, KENTUCKY**  
**SCHEDULE OF UTILITY OPERATING EXPENSES**  
**MUNICIPAL WATERWORKS AND SEWER SYSTEM**  
For the Year Ended June 30, 2018

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
<b>Water administration:</b>			
Salaries and wages	\$ 86,466	\$	\$ 86,466
Fringe benefits	53,877		53,877
Contractual services	27,364		27,364
Materials and supplies	20,004		20,004
Other costs	7,844		7,844
	<u>195,555</u>		<u>195,555</u>
<b>Water operations:</b>			
Salaries and wages	305,281		305,281
Fringe benefits	213,789		213,789
Contractual services	433,129		433,129
Materials and supplies	224,490		224,490
Other costs	9,786		9,786
	<u>1,186,475</u>		<u>1,186,475</u>
<b>Sewer operations:</b>			
Salaries and wages		262,851	262,851
Fringe benefits		168,587	168,587
Contractual services		388,866	388,866
Materials and supplies		38,642	38,642
Other costs		8,833	8,833
		<u>867,779</u>	<u>867,779</u>
<b>Water and sewer maintenance:</b>			
Salaries and wages	109,098	89,262	198,360
Fringe benefits	64,644	52,890	117,534
Contractual services	49,162	40,224	89,386
Materials and supplies	54,403	44,511	98,914
Other costs	6,197	5,070	11,267
	<u>283,504</u>	<u>231,957</u>	<u>515,461</u>
<b>Other:</b>			
Insurance	140,929	115,305	256,234
	<u>140,929</u>	<u>115,305</u>	<u>256,234</u>
<b>Total operating expenses</b>	<u><u>\$ 1,806,463</u></u>	<u><u>\$ 1,215,041</u></u>	<u><u>\$ 3,021,504</u></u>

**FEDERAL GRANT DISCLOSURES**

**CITY OF HARRODSBURG, KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

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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, 2018**

<u>Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Passed Through To Subrecipients</u>
A. U.S. Department of Transportation: Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet:				
Highway Safety Program	20.616	PT-2017-HY-82	\$ 1,502	\$ -
Highway Safety Program	20.616	M2HVE-18-07	5,147	-
			<u>6,649</u>	<u>-</u>
Sidewalk Improvement Program	20.205	6000-053	<u>37,175</u>	<u>37,175</u>
B. U.S. Department of Agriculture Rural Development: Direct:				
RUS Loan/Grant	10.760	20-084-1837	<u>5,462,867</u> *	<u>-</u>
C. U.S. Environmental Protection Agency: Passed through Commonwealth of Kentucky, Kentucky Infrastructure Authority				
Revolving Loan Fund	66.468	F16-049	355,163 *	-
			<u>\$ 5,861,854</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.

# Kerbaugh, Rodes & Butler, PLLC

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## 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, 2018, 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, 2019.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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, 2019

# Kerbaugh, Rodes & Butler, PLLC

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## 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, 2018. 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, 2018.

## 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, 2019

**CITY OF HARRODSBURG, KENTUCKY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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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
66.468	U.S. Environmental Protection Agency, Capitalization Grants For Drinking Water State Revolving Funds

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes

**CITY OF HARRODSBURG, KENTUCKY**  
**Schedule of Findings and Questioned Costs-Continued**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings**

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No matters were reported.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.

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**Section IV – Prior Year Audit Findings**

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No matters were reported in the prior year.