

CITY OF HARRODSBURG, KENTUCKY

**Report on Audited Financial Statements
and Supplementary Information for the
Year Ended June 30, 2019**

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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Kerbaugh, Rodes & Butler, PLLC

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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, 2019, 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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability information, and net other postemployment benefits information on pages III through X and 47 through 55 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 December 30, 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 solely 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
December 30, 2019

CITY OF HARRODSBURG, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

OVERVIEW

The report on Audited Financial Statements and Supplementary information for the year ended June 30, 2019 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.

CITY OF HARRODSBURG, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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 \$691,193 or approximately 34%, indicating a negative change in the City's financial position. The largest portion of the City's net position (\$4,662,657) 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, 2019

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, 2019 was \$934,170 in capital leases and loans used for vehicle and equipment purchases, and for road resurfacing. This is an increase of \$198,300 or approximately 27% from the prior year. During the fiscal year ended June 30, 2019, the City entered into three capital leases for the purchase of a dump truck, six police trucks, and one fire truck totaling \$383,671. Scheduled debt payments for all long-term debt of the City's governmental activities in the amount of \$185,372 were made during the year. As listed on Table I, the City's unreserved and unrestricted governmental fund net position (deficit) was (\$3,442,596) as of June 30, 2019.

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 \$724,119 or approximately 3.4%. The largest portion of the City's net position (\$16,814,409) or approximately 77.0% 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, 2019 was \$40,406,521 in capital leases for equipment and bonds and loans issued for major improvements to the utility infrastructure. This is a decrease of \$520,219 or approximately 1.3% over the prior year. During the fiscal year ended June 30, 2019, the City incurred the following new debt:

1. The City received draws in the amount of \$272,943 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.
2. The City received draws in the amount of \$181,610 on Kentucky Infrastructure Authority loan #F16-049 for the purpose of funding a water distribution main replacement project. This loan bears an interest rate of .75% and is due 20 years from the date the loan is closed. Annual interest and principal payments have yet to be determined and will commence within 12 months from initiation of operation.
3. The City entered into a capital lease in the amount of \$51,696 for the purchase of dump truck. This lease bears an interest rate of 7.469%. Lease payments include principal and interest and are payable monthly through March 1, 2024.

CITY OF HARRODSBURG, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
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Scheduled debt payments for all long-term debt of the City's business-type activities in the amount of \$506,246 were made during the year. As listed on Table I, the City's business-type activities maintained unrestricted net position of \$2,655,058. This is a \$2,263,943 increase over the prior year unrestricted net position.

BUDGET AND OTHER REQUIRED SUPPLEMENTARY INFORMATION

Required supplemental information starting on page 47 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 \$8,389,015 as of June 30, 2019, compared to \$8,434,467 as of June 30, 2018.

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 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 \$2,452,791 as of June 30, 2019, compared to \$2,955,443 as of June 30, 2018.

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 73% of its payroll license fees and net profits and 30% of total revenues of the General Fund from ten employers within the City limits. The billings to twenty customers represent 58% of the Utility system's operating

CITY OF HARRODSBURG, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. A discussion of these commitments can be found at footnote VII, page 45 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 and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

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, 2019**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 4,421,816	\$ 7,451,517	\$ 11,873,333
Capital assets, net	<u>5,596,827</u>	<u>57,220,930</u>	<u>62,817,757</u>
Total assets	<u>\$ 10,018,643</u>	<u>\$ 64,672,447</u>	<u>\$ 74,691,090</u>
Deferred outflow of resources	<u>\$ 2,437,768</u>	<u>\$ 563,889</u>	<u>\$ 3,001,657</u>
Long-term debt outstanding	\$ 934,170	\$ 40,406,521	\$ 41,340,691
Net pension obligation	6,764,788	1,624,227	8,389,015
Post employment benefits payable	1,979,306	473,485	2,452,791
Other liabilities	<u>171,455</u>	<u>623,096</u>	<u>794,551</u>
Total liabilities	<u>\$ 9,849,719</u>	<u>\$ 43,127,329</u>	<u>\$ 52,977,048</u>
Deferred inflows of resources	<u>\$ 1,248,104</u>	<u>\$ 262,554</u>	<u>\$ 1,510,658</u>
Net investment in capital assets	\$ 4,662,657	\$ 16,814,409	\$ 21,477,066
Restricted	138,527	2,376,986	2,515,513
Unrestricted	<u>(3,442,596)</u>	<u>2,655,058</u>	<u>(787,538)</u>
Total net position	<u>\$ 1,358,588</u>	<u>\$ 21,846,453</u>	<u>\$ 23,205,041</u>

**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 inflows 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>

TABLE 2

CHANGE IN NET POSITION
June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 141,571	\$ 6,410,642	\$ 6,552,213
Operating grants and contributions	655,448		655,448
Capital grants and contributions		1,809,406	1,809,406
General revenues:			
Taxes	2,392,083		2,392,083
Licenses, permits and fees	3,432,995		3,432,995
Other	70,691	10,649	81,340
Transfer	609		609
	<u>6,693,397</u>	<u>8,230,697</u>	<u>14,924,094</u>
Program Expenses			
General government	608,952		608,952
Police department	2,037,805		2,037,805
Fire department	1,457,824		1,457,824
Street department	1,017,048		1,017,048
Cemeteries	466,703		466,703
Culture and recreation	327,802		327,802
Communications	368,351		368,351
Non-departmentalized	1,100,105		1,100,105
Water		4,687,533	4,687,533
Sewer		2,819,045	2,819,045
	<u>7,384,590</u>	<u>7,506,578</u>	<u>14,891,168</u>
Total expenses			
	<u>7,384,590</u>	<u>7,506,578</u>	<u>14,891,168</u>
Change in net position	(691,193)	724,119	32,926
Net position, beginning of year	<u>2,049,781</u>	<u>21,122,334</u>	<u>23,172,115</u>
Net position, end of year	<u>\$ 1,358,588</u>	<u>\$ 21,846,453</u>	<u>\$ 23,205,041</u>

CHANGE IN NET POSITION
June 30, 2018

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

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 2,809,711	\$ 3,794,261	\$ 6,603,972
Certificates of deposit		383,697	383,697
Receivables:			
Taxes and licenses	1,171,713		1,171,713
Intergovernmental	60,382		60,382
User fees (net)		553,516	553,516
Notes receivable	20,000		20,000
Due from other funds	(10,529)	10,529	
Prepaid expenses	234,113	234,945	469,058
Total current assets	<u>4,285,390</u>	<u>4,976,948</u>	<u>9,262,338</u>
Restricted cash and certificates of deposit	<u>81,426</u>	<u>2,376,986</u>	<u>2,458,412</u>
Non-current assets:			
Capital assets, net	5,596,827	57,220,930	62,817,757
Notes receivable	55,000		55,000
Bond issuance costs		97,583	97,583
Total non-current assets	<u>5,651,827</u>	<u>57,318,513</u>	<u>62,970,340</u>
Total assets	<u>\$ 10,018,643</u>	<u>\$ 64,672,447</u>	<u>\$ 74,691,090</u>
Deferred outflows of resources	<u>\$ 2,437,768</u>	<u>\$ 563,889</u>	<u>\$ 3,001,657</u>

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 75,968	\$ 71,401	\$ 147,369
Accounts payable, construction		57,982	57,982
Payroll liabilities	95,487	104,530	200,017
Unearned revenue		29,479	29,479
Customer deposits		289,899	289,899
Leases and loans payable	252,561	154,470	407,031
Total liabilities payable from unrestricted assets	424,016	707,761	1,131,777
Payable from restricted assets:			
Accrued interest payable		69,805	69,805
Loans payable		556,412	556,412
Bonds payable		529,500	529,500
Total liabilities payable from restricted assets		1,155,717	1,155,717
Total current liabilities	424,016	1,863,478	2,287,494
Non-current liabilities:			
Bonds, leases, and loans payable	681,609	39,166,139	39,847,748
Net pension obligation	6,764,788	1,624,227	8,389,015
Post employment benefits payable	1,979,306	473,485	2,452,791
Total non-current liabilities	9,425,703	41,263,851	50,689,554
Total liabilities	\$ 9,849,719	\$ 43,127,329	\$ 52,977,048
Deferred inflows of resources	\$ 1,248,104	\$ 262,554	\$ 1,510,658
NET POSITION			
Net investment in capital assets	\$ 4,662,657	\$ 16,814,409	\$ 21,477,066
Restricted	138,527	2,376,986	2,515,513
Unrestricted	(3,442,596)	2,655,058	(787,538)
Total net position	\$ 1,358,588	\$ 21,846,453	\$ 23,205,041

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 608,952	\$	\$	\$	\$ (608,952)
Police department	2,037,805	2,818	163,424		(1,871,563)
Fire department	1,457,824		94,309		(1,363,515)
Street department	1,017,048		201,485		(815,563)
Cemeteries	466,703	118,476			(348,227)
Culture and recreation	327,802	20,277			(307,525)
Communications	368,351		191,114		(177,237)
Non-departmentalized	1,100,105		5,116		(1,094,989)
Total Governmental Activities	7,384,590	141,571	655,448		(6,587,571)
Business-Type Activities:					
Water	4,687,533	3,513,056			(1,174,477)
Sewer	2,819,045	2,897,586		1,809,406	1,887,947
Total Business-Type Activities	7,506,578	6,410,642		1,809,406	713,470
Total	\$ 14,891,168	\$ 6,552,213	\$ 655,448	\$ 1,809,406	\$ (5,874,101)

(Continued)

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Changes in Net Position:			
Net (expense)/revenue	\$ (6,587,571)	\$ 713,470	\$ (5,874,101)
General revenues:			
Taxes:			
Real property	297,610		297,610
Motor vehicle	106,136		106,136
Tangible personal property	27,633		27,633
Public service company	15,284		15,284
Insurance premium	1,353,262		1,353,262
Restaurant tax	312,645		312,645
Bank deposits	54,945		54,945
Payments in lieu of taxes	11,889		11,889
Alcohol fees	212,679		212,679
Licenses, permits, and fees:			
Payroll license fees	2,497,987		2,497,987
Net profits license fees	334,089		334,089
Business license fees	21,225		21,225
Street license fees	1,575		1,575
Franchise fees - cable television	58,073		58,073
Franchise fees - electric	435,959		435,959
Franchise fees - natural gas	84,087		84,087
Other:			
Penalties and interest	13,425		13,425
Interest earned	2,755	10,649	13,404
Sale of surplus property	3,864		3,864
Insurance claim receipts	13,070		13,070
Miscellaneous	37,577		37,577
Transfer from other funds	609		609
Total general revenues and transfers	5,896,378	10,649	5,907,027
Change in net position	(691,193)	724,119	32,926
Net position, beginning of year	2,049,781	21,122,334	23,172,115
Net position, end of year	<u>\$ 1,358,588</u>	<u>\$ 21,846,453</u>	<u>\$ 23,205,041</u>

CITY OF HARRODSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash	\$ 2,809,711	\$ 81,426	\$ 2,891,137
Receivables:			
Taxes and licenses	1,091,031	80,682	1,171,713
Intergovernmental	46,575	13,807	60,382
Total assets	<u>\$ 3,947,317</u>	<u>\$ 175,915</u>	<u>\$ 4,123,232</u>
LIABILITIES			
Accounts payable	\$ 54,061	\$ 37,388	\$ 91,449
Payroll liabilities	95,487		95,487
Due to other funds	10,529		10,529
Total liabilities	<u>160,077</u>	<u>37,388</u>	<u>197,465</u>
FUND BALANCE			
Fund balance:			
Restricted for:			
Roads		46,723	46,723
Tourism		89,304	89,304
Police		2,500	2,500
Unassigned	3,787,240		3,787,240
Total fund balance	<u>3,787,240</u>	<u>138,527</u>	<u>3,925,767</u>
Total liabilities and fund balance	<u>\$ 3,947,317</u>	<u>\$ 175,915</u>	

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

Loans made and not repaid within 60 days of year end are a use of funds and are not reported as an asset in the fund financial statements.	75,000
Prepaid expenses are a use of financial resources and therefore are not reported as an asset in the fund financial statements	234,113
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 \$5,720,557	5,596,827
Delinquent debt service payments are included as accounts payable for fund financial statements	15,481
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(934,170)
Certain items related to the City's net pension liability do not affect available financial resources and therefore are not reported in the funds	(5,715,820)
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	(1,838,610)
Net position of governmental activities	<u>\$ 1,358,588</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Non-Major Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,866,759	\$ 312,645	\$ 2,179,404
Licenses, permits, and fees	3,432,995		3,432,995
Intergovernmental revenue	477,913	175,561	653,474
Alcohol license fee		212,679	212,679
Service charges	141,571		141,571
Other	92,034	629	92,663
Total revenues	<u>6,011,272</u>	<u>701,514</u>	<u>6,712,786</u>
Expenditures:			
General government	516,398		516,398
Police department	2,537,564		2,537,564
Fire department	1,740,838		1,740,838
Street department	666,095	336,593	1,002,688
Cemeteries	390,928		390,928
Culture and recreation	214,384		214,384
Communications	311,891		311,891
Non-departmentalized	750,477	366,266	1,116,743
Total expenditures	<u>7,128,575</u>	<u>702,859</u>	<u>7,831,434</u>
Excess (deficiency) of revenues over expenditures before other financing sources	<u>(1,117,303)</u>	<u>(1,345)</u>	<u>(1,118,648)</u>
Other financing sources (uses):			
Transfers (to) from other funds	375,306	(374,697)	609
Lease proceeds	383,671		383,671
Total other financing sources (uses)	<u>758,977</u>	<u>(374,697)</u>	<u>384,280</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(358,326)</u>	<u>(376,042)</u>	<u>(734,368)</u>
Fund balance, beginning of year	<u>4,145,566</u>	<u>514,569</u>	<u>4,660,135</u>
Fund balance, end of year	<u><u>\$ 3,787,240</u></u>	<u><u>\$ 138,527</u></u>	<u><u>\$ 3,925,767</u></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, 2019

Net change in fund balances - total governmental funds	\$ (734,368)
Governmental funds report repayment of long term receivables as income while governmental activities report repayment as a reduction of the receivable	(20,000)
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	1,384,347
Depreciation expense	(427,045)
Governmental funds report prepayments of expenditures as an expense while governmental activities report prepaid expenses as an asset	(3,638)
Governmental funds report debt proceeds as revenues and debt service payments as expenditures:	
Capital lease and note obligation principal payments	200,852
Capital lease proceeds	(383,671)
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.	(589,053)
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.	(118,617)
Change in net position of governmental activities	<u>\$ (691,193)</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2019

	<u>Municipal Waterworks & Sewer System</u>
ASSETS	
Current assets:	
Cash	\$ 3,794,261
Certificates of deposit	383,697
Accounts receivable, customers (net)	553,516
Due from other funds	10,529
Prepaid expenses	<u>234,945</u>
Total unrestricted current assets	<u>4,976,948</u>
Restricted cash and certificates of deposit	<u>2,376,986</u>
Non-current assets:	
Capital assets, net	57,220,930
Bond issuance costs	<u>97,583</u>
Total non-current assets	<u>57,318,513</u>
Total assets	<u>\$ 64,672,447</u>
Deferred outflow of resources	<u>\$ 563,889</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 71,401
Accounts payable, construction	57,982
Payroll liabilities	104,530
Unearned revenue	29,479
Customer deposits	289,899
Leases payable	<u>154,470</u>
Total liabilities payable from unrestricted assets	<u>707,761</u>
Payable from restricted assets:	
Accrued interest payable	69,805
Loans payable	556,412
Bonds payable	<u>529,500</u>
Total liabilities payable from restricted assets	<u>1,155,717</u>
Total current liabilities	<u>1,863,478</u>
Non-current liabilities:	
Bonds, leases, and loans payable	39,166,139
Net pension obligation	1,624,227
Post employment benefits payable	<u>473,485</u>
Total long term liabilities	<u>41,263,851</u>
Total liabilities	<u>\$ 43,127,329</u>
Deferred inflow of resources	<u>\$ 262,554</u>
NET POSITION	
Net investment in capital assets	\$ 16,814,409
Restricted	2,376,986
Unrestricted	<u>2,655,058</u>
Total net position	<u>\$ 21,846,453</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2019

	Municipal Waterworks & Sewer System
Operating revenues:	
Water sales	\$ 2,360,220
Water taps	15,994
Sewer charges	2,663,195
Sewer taps	16,666
Sewer surcharge	6,197
Pre-treatment charges	114,898
Penalties	130,067
Other revenue	29,525
Total operating revenues	<u>5,336,762</u>
Operating expenses:	
Water operations	1,948,780
Sewer operations	1,144,034
Total operating expenses	<u>3,092,814</u>
Operating income before depreciation, amortization, and bad debts	<u>2,243,948</u>
Depreciation expense	2,724,169
Amortization expense	3,031
Bad debts	47,000
Total depreciation, amortization, and bad debts	<u>2,774,200</u>
Operating income (loss)	<u>(530,252)</u>
Non-operating revenues (expenses):	
Interest income	10,649
Garbage service	649,087
Sales tax	132,281
Utility tax	49,260
KY River withdrawal fee	209,583
Other income	33,669
Interest expense	(575,824)
Garbage service	(603,951)
Sales tax paid	(125,021)
Utility tax paid	(49,918)
KY River withdrawal fee	(284,850)
Non-operating revenues (expenses), net	<u>(555,035)</u>
Income (loss) before other revenues, expenses, gains and losses and transfers	(1,085,287)
Capital grant proceeds	<u>1,809,406</u>
Increase (decrease) in net position	724,119
Net position, beginning of year	<u>21,122,334</u>
Net position, end of year	<u><u>\$ 21,846,453</u></u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2019

	Municipal Waterworks & Sewer System
Cash Flows from Operating Activities:	
Receipts from customers	\$ 5,281,869
Payments to suppliers	(1,559,442)
Payments to employees	(1,273,491)
Net cash provided by (used in) operating activities	<u>2,448,936</u>
Cash Flows from Non-Capital Financing Activities:	
Security deposit receipts	51,887
Security deposit refunds	(45,507)
Non-operating receipts	1,063,351
Non-operating disbursements	(1,036,103)
Net cash provided by (used in) non-capital financing activities	<u>33,628</u>
Cash Flows from Capital and Related Financing Activities:	
Capital asset purchases	(3,697,240)
Principal paid on bonds, leases, and loans	(1,026,465)
Capital grant proceeds	90,981
Bond, lease, and loan proceeds	506,246
Interest paid on bonds, leases, and loans	(558,325)
Net cash provided by (used in) capital and related financing activities	<u>(4,684,803)</u>
Cash Flows from Investing Activities:	
Purchase of investments	(3,019)
Interest on investments	10,649
Net cash provided by (used in) investing activities	<u>7,630</u>
Net increase (decrease) in cash	(2,194,609)
Cash, beginning of year	<u>7,894,851</u>
Cash, end of year	<u>\$ 5,700,242</u>
Cash is Classified as:	
Unrestricted	\$ 3,794,261
Restricted	<u>1,905,981</u>
	<u>\$ 5,700,242</u>

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2019

	<u>Municipal Waterworks & Sewer System</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (530,252)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,724,169
Amortization	3,031
Bad debts	47,000
Change in assets and liabilities:	
Accounts receivable	83,406
Prepaid expenses	6,270
Accounts payable	(8,183)
Payroll liabilities	3,743
Net pension obligation	118,003
Net post employment benefits payable	1,749
Total adjustments	<u>2,979,188</u>
Net cash provided by (used in) operating activities	<u>\$ 2,448,936</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUND
June 30, 2019

	<u>Cemetery Fund</u>
ASSETS	
Cash	\$ 158,554
Certificates of deposit	<u>233,671</u>
Total assets	<u>\$ 392,225</u>
 NET POSITION	
Net position	<u>\$ 392,225</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2019

	<u>Cemetery Fund</u>
Revenues:	
Perpetual care	\$ 24,800
Interest	<u>1,894</u>
Total revenues	<u>26,694</u>
Expenditures:	
Capital outlay	<u>11,743</u>
Excess (deficiency) of revenues over expenditures	14,951
Other financing sources (uses):	
Transfers (to) from other funds	<u>(609)</u>
Excess (deficiency) of revenues over expenditures and transfers	14,342
Net position, beginning of year	<u>377,883</u>
Net position, end of year	<u><u>\$ 392,225</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, 2019

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, 2019

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:

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

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

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

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

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

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

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

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

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

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

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

City through December 30, 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. Utility accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable, which total \$540,000, 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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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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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For the Year Ended June 30, 2019

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 \$0.668 per \$100 of assessed value for the year ended June 30, 2019. 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
For the Year Ended June 30, 2019

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, 2019, all of the City's deposits in financial institutions, were insured or collateralized. Funds collateralized with securities held by the pledging financial institution totaled \$9,033,858.

B. **Property Tax Calendar.** Property taxes for fiscal year 2019 were levied on October 1, 2018 on the assessed valuation of property, located in the City as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes and local deposit franchise taxes, are as follows:

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

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

<u>Department/Classification</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Street department	\$ 661,971	\$ 666,095	\$ 4,124

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, 2019:

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, 2019.
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, 2019.

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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, 2019.
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, 2019.
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, 2019.
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, 2019.
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, 2019.
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, 2019.
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, 2019.
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, 2019.
9. Annual deposits of \$3,900 are to be deposited until \$39,000 has been received under Loan A16-033. Deposits to this reserve began in June 2019.
10. Annual deposits of \$7,200 are to be deposited until \$72,000 has been received under Loan F16-049. Deposits to this reserve began in June 2019.

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, 2019.
- 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, 2019.
- 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, 2019.

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, 2019 this account was properly funded.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019, the City's funds on deposit in financial institutions, were properly insured or collateralized. Funds collateralized with securities held by pledging financial institutions totaled \$9,033,858.

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, 2019 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<i>Business-Type Activities:</i>				
First Financial Bank				
Savings	\$ 31,047	\$ 31,047	0.05 %	N/A
Whitaker Bank & Trust Co.				
Certificate of Deposit	12,048	12,048	0.20 %	8/14/19
Certificate of Deposit	35,422	35,422	0.33 %	2/20/20
Certificate of Deposit	181,187	181,187	0.40 %	8/17/19
Certificate of Deposit	22,166	22,166	0.33 %	2/20/20
Certificate of Deposit	382,369	382,369	0.33 %	2/20/20
Certificate of Deposit	190,463	190,463	0.40 %	9/28/20
	<u>\$ 854,702</u>	<u>\$ 854,702</u>		

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

- 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, 2019 are as follows:

	Type of Restricted Assets		
	Cash	Certificates of Deposit	Total
<i>Governmental Activities:</i>			
Municipal aid fund	\$ 70,304	\$	\$ 70,304
Tourism development fund	8,622		8,622
Alcohol beverage control fund	2,500		2,500
	<u>\$ 81,426</u>	<u>\$</u>	<u>\$ 81,426</u>
<i>Business-Type Activities:</i>			
Bond sinking fund	\$ 648,519	\$ 31,047	\$ 679,566
Note sinking fund	272,333		272,333
Depreciation fund	164,839	57,589	222,428
Debt reserve fund	279,798		279,798
Repairs and maintenance fund	540,492	382,369	922,861
	<u>\$ 1,905,981</u>	<u>\$ 471,005</u>	<u>\$ 2,376,986</u>

- C. **Receivables.** Receivables included as current assets on the Statement of Net Position, as of June 30, 2019, consists of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Taxes and Licenses:</i>			
Payroll license	\$ 630,335	\$	\$ 630,335
Insurance license	343,726		343,726
Auto taxes	7,118		7,118
Net profits license	108,291		108,291
Returned checks	1,561		1,561
Restaurant tax	80,682		80,682
	<u>1,171,713</u>		<u>1,171,713</u>
<i>Intergovernmental:</i>			
Transportation grant	37,175		37,175
Police grants	9,400		9,400
State municipal aid	13,807		13,807
	<u>60,382</u>		<u>60,382</u>
Wilderness Trace YMCA	<u>75,000</u>		<u>75,000</u>
<i>User Fees:</i>			
User fees		1,093,516	1,093,516
Less allowance for doubtful accounts		540,000	540,000
		<u>553,516</u>	<u>553,516</u>
Total receivables	<u>\$ 1,307,095</u>	<u>\$ 553,516</u>	<u>\$ 1,860,611</u>

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

- 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 at no interest so they could repay loans for their facilities. Repayment of \$100,000 was received in fiscal 2017 and a payment of \$20,000 was received in fiscal 2019. No formal repayment agreement has been established regarding this loan..
- E. **Internal Balances.** The following interfund payables and receivables occurred as of June 30, 2019:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<i>Major Funds:</i>		
General fund	\$	\$ 10,529
<i>Major Fund:</i>		
Municipal Waterworks and Sewer System	10,529	
	<u>\$ 10,529</u>	<u>\$ 10,529</u>

The receivable due to the Municipal Waterworks and Sewer System was due to one receipt deposited into the general fund bank account in error totaling \$4,005 and the transfer of \$6,524 to the payroll account made in error.

- F. **Capital Assets.** The activity related to capital assets for the fiscal year ended June 30, 2019 was as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Governmental Activities:				
Land	\$ 627,929	\$ 67,500	\$	\$ 695,429
Land improvements	1,695,878			1,695,878
Vehicles and equipment	4,105,342	470,392	34,776	4,540,958
Buildings	2,469,400	821,671		3,291,071
Infrastructure	994,913			994,913
Construction in progress	74,351	24,784		99,135
Total cost	<u>9,967,813</u>	<u>1,384,347</u>	<u>34,776</u>	<u>11,317,384</u>
Accumulated depreciation:				
Land improvements	1,111,507	46,315		1,157,822
Vehicles and equipment	2,735,466	282,472	34,776	2,983,162
Buildings	1,222,960	77,320		1,300,280
Infrastructure	258,355	20,938		279,293
Total accumulated depreciation	<u>5,328,288</u>	<u>427,045</u>	<u>34,776</u>	<u>5,720,557</u>
Total capital assets, net	<u>\$ 4,639,525</u>	<u>\$ 957,302</u>	<u>\$</u>	<u>\$ 5,596,827</u>

CITY OF HARRODSBURG, KENTUCKY
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Business-Type Activities:

Land	\$ 662,164	\$	\$ 662,164
Vehicles and equipment	3,719,974	812,347	4,532,321
Buildings	172,985		172,985
Water utility system	12,770,011	2,085,552	14,855,563
Sewer utility system	12,154,695		12,154,695
Water and sewer treatment plant	40,195,916	20,864,941	61,060,857
Construction in progress	<u>22,349,016</u>	<u>1,973,000</u>	<u>22,950,494</u>
Total cost	<u>92,024,761</u>	<u>25,735,840</u>	<u>94,810,107</u>
Accumulated depreciation:			
Vehicles and equipment	2,229,940	243,277	2,473,217
Buildings	49,976	4,323	54,299
Water utility system	7,071,527	586,139	7,657,666
Sewer utility system	7,635,566	390,664	8,026,230
Water and sewer treatment plant	<u>17,877,999</u>	<u>1,499,766</u>	<u>19,377,765</u>
Total accumulated depreciation	<u>34,865,008</u>	<u>2,724,169</u>	<u>37,589,177</u>
Total capital assets, net	<u>\$ 57,159,753</u>	<u>\$ 23,011,671</u>	<u>\$ 22,950,494</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 8,482
Police department	146,520
Fire department	74,674
Street department	65,567
Cemeteries	33,473
Culture and recreation	94,445
Communications	<u>3,884</u>
Total depreciation expense	<u>\$ 427,045</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 \$252,647 as of June 30, 2019.
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 \$538,500 as of June 30, 2019.
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 \$7,951 as of June 30, 2019.
4. 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

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interest at 6.95% per annum. This lease is payable through 2022 and has a balance of \$26,390 as of June 30, 2019.

5. In 2015, the City obtained \$62,430 financing for the purchase of two police cruisers, which cost \$62,430. The 5-year capital lease agreement requires annual payments of \$11,326, including interest at 3.801% per annum. The lease is payable through 2020 and has a balance of \$10,911 as of June 30, 2019.
6. 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 \$2,295 as of June 30, 2019.
7. 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 \$1,634 as of June 30, 2019.
8. 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 \$44,241 as of June 30, 2019.
9. 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 \$17,767 as of June 30, 2019.
10. 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 \$150,257 as of June 30, 2019.
11. 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, 2019.
12. In 2019, the City obtained \$51,696 financing for the purchase of a dump truck for the water and sewer department which cost \$51,696. The 5-year capital lease agreement requires monthly payments of \$1,029, including interest at 7.469% per annum. The lease is payable through 2024 and has a balance of \$48,662 as of June 30, 2019.
13. In 2019, the City obtained \$45,852 financing for the purchase of a Chevy Tahoe for the fire department, which cost \$45,852. The 5-year capital lease agreement requires monthly payments of \$935, including interest at 8.248% per annum. The lease is payable through 2024 and has a balance of \$45,852 as of June 30, 2019.
14. In 2019, the City obtained \$284,372 financing for the purchase of six police cruisers for the police department, which cost \$284,372. The 5-year capital lease agreement requires monthly payments of \$5,485, including interest at 5.909% per annum. The lease is payable through 2024 and has a balance of \$278,005 as of June 30, 2019.
15. In 2019, the City obtained \$53,447 financing for the purchase of a Ford F-250 pickup truck for the street department, which cost \$53,447. The 5-year capital lease agreement requires

CITY OF HARRODSBURG, KENTUCKY
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annual payments of \$12,119, including interest at 6.7% per annum. The lease is payable through 2023 and has a balance of \$41,329 as of June 30, 2019.

The following is a schedule of property and equipment and outstanding liabilities relating to capital lease agreements at June 30, 2019:

Governmental Funds:

Property Leased	Asset Cost	Accumulated Depreciation	Net Book Value	Lease Payable		
				Current Portion	Long-Term Portion	Total
Street trucks	\$ 150,654	\$ 27,191	\$ 123,463	\$ 31,679	\$ 53,807	\$ 85,486
Cemetery truck	40,214	25,852	14,362	2,295		2,295
Fire trucks	475,748	80,810	394,938	71,923	234,527	306,450
Police cruisers	701,499	173,126	528,373	118,923	364,491	483,414
Police equipment	73,439	22,032	51,407	26,107	28,784	54,891
Excavators	42,485	27,312	15,173	1,634		1,634
	<u>\$1,484,039</u>	<u>\$ 356,323</u>	<u>\$1,127,716</u>	<u>\$ 252,561</u>	<u>\$ 681,609</u>	<u>\$ 934,170</u>

Business Activity Funds:

Property Leased	Asset Cost	Accumulated Depreciation	Net Book Value	Lease Payable		
				Current Portion	Long-Term Portion	Total
Dump truck	\$ 51,696	\$ 3,693	\$ 48,003	\$ 9,017	\$ 39,646	\$ 48,663
Water meters	1,819,122	1,001,442	817,680	145,453	393,046	538,499
	<u>\$1,870,818</u>	<u>\$ 1,005,135</u>	<u>\$ 865,683</u>	<u>\$ 154,470</u>	<u>\$ 432,692</u>	<u>\$ 587,162</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, 2019, 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%.	\$ 2,295
60-month lease for the purchase of police cruisers. The lease bears interest at 3.801%.	10,911
60-month lease for the purchase of an excavator. The lease bears interest at 2.14%.	1,634
60-month lease for the purchase of police cruisers. The lease bears interest at 3.567%.	44,241
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%.	150,257
60-month lease for the purchase a dump truck. The lease bears interest at 6.95%.	26,390
48-month lease for the purchase a dump truck. The lease bears interest at 5.45%.	17,767
84-month lease for the purchase of a fire truck. The lease bears interest at 3.25%.	252,647
60-month lease for the purchase of a truck for the street department. The lease bears interest at 6.7%.	41,329
60-month lease for the purchase of police cruisers. The lease bears interest at 5.909%.	278,005
60-month lease for the purchase of a vehicle for the fire department. The lease bears interest at 8.248%.	45,852
48-month lease for the purchase of a fire truck. The lease bears interest at 6.45%.	7,951
	<u>\$ 934,170</u>

Included as liability on Statement of Net Position:

Current liability	\$ 252,561
Non-current liability	681,609
	<u>\$ 934,170</u>

Business-Type Activities. As of June 30, 2019, 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%.	\$ 538,500
5-year lease for the purchase of a dump truck. The lease bears interest at 7.469%.	48,662
	<u>\$ 587,162</u>

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. \$ 805,042

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 \$17,500 are to be paid semi-annually through June 1, 2035. 503,245

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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.	250,700
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.	280,445
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.	2,064,668
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. Principal and interest payments of approximately \$280,000 are to be paid semi-annually through June 1, 2039.	10,000,000
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.	288,452
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.	1,253,907
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.	572,194
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.	982,533
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. Payments of approximately \$58,000 are to be paid semi-annually through December 1, 2038.	2,019,673
	<u>\$ 19,020,859</u>

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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. \$ 190,000

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. 911,000

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. 2,054,000

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. 7,137,000

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. 1,666,500

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

\$ 20,798,500

Included as liability on Statement of Net Position:

	<u>Leases Payable</u>	<u>Loans Payable</u>	<u>Bonds Payable</u>	<u>Total</u>
Current liability	\$ 154,470	\$	\$	\$ 154,470
Current liability payable from restricted resources		556,412	529,500	1,085,912
Non-current liability	432,692	18,464,447	20,269,000	39,166,139
	<u>\$ 587,162</u>	<u>\$ 19,020,859</u>	<u>\$ 20,798,500</u>	<u>\$ 40,406,521</u>

- 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, 2019:

<u>Type of Debt</u>	<u>Balance July 1, 2018</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due Within One Year</u>
<i>Governmental Activities:</i>					
Capital leases payable	\$ 735,871	\$ 383,671	\$ 185,372	\$ 934,170	\$ 252,561

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Type of Debt	Balance July 1, 2018	Proceeds	Payments	Balance June 30, 2019	Amounts Due Within One Year
Business-Type Activities:					
Bonds payable	\$ 21,180,000	\$	\$ 381,500	\$ 20,798,500	\$ 529,500
Capital leases payable	677,661	51,696	142,195	587,162	154,470
Loans payable	19,069,079	454,550	502,770	19,020,859	556,412
Total business-type activities	<u>\$ 40,926,740</u>	<u>\$ 506,246</u>	<u>\$ 1,026,465</u>	<u>\$ 40,406,521</u>	<u>\$ 1,240,382</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, 2019 are as follows:

	Year Ending June 30	Principal	Interest	Total
Governmental Activities:				
	2020	\$ 252,561	\$ 44,183	\$ 296,744
	2021	216,402	30,472	246,874
	2022	199,505	20,373	219,878
	2023	183,737	10,614	194,351
	2024	81,560	2,227	83,787
	2025	405	3	408
		<u>\$ 934,170</u>	<u>\$ 107,872</u>	<u>\$ 1,042,042</u>
Proprietary Activities:				
	2020	\$ 1,705,624	\$ 834,444	\$ 2,540,068
	2021	1,573,771	800,600	2,374,371
	2022	1,587,865	769,523	2,357,388
	2023	1,533,453	738,465	2,271,918
	2024	1,379,723	712,209	2,091,932
	2025 - 2029	6,730,502	3,210,233	9,940,735
	2030 - 2034	7,312,060	2,580,154	9,892,214
	2035 - 2039	6,812,990	1,892,986	8,705,976
	2040 - 2044	3,575,000	1,279,313	4,854,313
	2045 - 2049	3,181,000	783,975	3,964,975
	2050 - 2054	2,958,500	328,765	3,287,265
	2055 - 2057	1,073,500	49,855	1,123,355
		<u>\$ 39,423,988</u>	<u>\$ 13,980,522</u>	<u>\$ 53,404,510</u>

Kentucky Infrastructure Authority note A16-033 totaling \$982,533 is 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, 2019 for Industrial Revenue Bonds is not available.

CITY OF HARRODSBURG, KENTUCKY
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- L. **Interest Expense.** Interest expense has been included in the Statement of Activities in the following functions/programs:

Governmental Activities:

Police department	\$ 12,149
Fire department	10,322
Street department	1,791
Cemetery department	<u>2,368</u>
	<u>26,630</u>

Proprietary Activities:

Water	287,912
Sewer	<u>287,912</u>
	<u>575,824</u>

Total interest expense	<u><u>\$ 602,454</u></u>
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Total interest capitalized in the proprietary fund was \$291,072.

- M. **Net Position.** Net position at June 30, 2019 is identified as follows:

Governmental Funds:

Restricted for:

Police department	\$ 2,500
Roads	46,723
Tourism	<u>89,304</u>
Total net position, restricted	<u><u>\$ 138,527</u></u>

Proprietary Funds:

Bond sinking fund	\$ 679,567
Note sinking fund	272,333
Debt reserve fund	279,798
Depreciation fund	222,428
Repairs and maintenance fund	<u>922,860</u>
Total net position, restricted	<u><u>\$ 2,376,986</u></u>

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N. **Transfers.** The following operating transfers were made during fiscal year 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 475,306	\$
Municipal Waterworks and Sewer System		100,000
Non-major Funds:		
Municipal Aid Fund	100,000	
Alcohol Beverage Control fund		474,697
Fiduciary Fund:		
Cemetery Fund		609
	<u>\$ 575,306</u>	<u>\$ 575,306</u>

The transfer of \$609 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.

The transfer of \$474,697 from the Alcohol Beverage Control Fund to the General Fund was to provide resources for the purchase of police equipment and reimbursement of payroll costs.

The transfer of \$100,000 from the Municipal Waterworks and Sewer System to the Municipal Aid Fund was for cost paid by the Municipal Aid Fund for paving roads of the Municipal Waterworks and Sewer System.

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 78.520. 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, 2019, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% for hazardous job classifications (Tier 1 plan). Employees hired after September 1, 2008 and before January 1, 2014 (Tier 2 plan) 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

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contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 16.22% of each employee's wages for non-hazardous job classifications and 24.87% 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.

Plan members who began participating on, or after January 1, 2014 (Tier 3 plan), 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 their annual creditable compensation to their own account and 1% to the health insurance fund which is not credited to the members account and is not refundable. 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 employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year geometric average net investment return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the system's GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KRS may get an upside sharing interest, while one may not. Upside sharing interest is credited to both the member contribution balance and employer pay credit balance. Upside sharing interest is an additional interest credit. Member accounts automatically earn 4% interest annually. The GANIR is calculated on an individual system basis.

The City contributed \$568,576 for the year ended June 30, 2019, or 100% of the required contribution. The contribution was allocated \$440,318 to the non-hazardous fund and \$128,258 to the hazardous fund.

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old

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Tier 3 Participation date	After December 31, 2013
Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
Reduced retirement	Not available

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources. At June 30, 2019, the City reported a liability of \$6,764,788 in the governmental activities fund and \$1,624,227 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, 2018, 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, 2018, the City's proportion was .1015689% for non-hazardous job classifications and .091100% for hazardous job classifications. For 2017, the City's proportion was .105664% for non-hazardous job classification and .100552% for hazardous job classifications.

For the year ended June 30, 2019, the City recognized pension expense of \$851,291 in the governmental activities fund and \$224,747 in the business-type activities fund. At June 30, 2019, the City of Harrodsburg had paid all amount owed for the year ending June 30, 2019.

At June 30, 2019, 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	\$ 324,125	\$ 66,772	\$ 52,978	\$ 23,775
Changes of assumptions	680,324		158,734	
Net difference between projected and actual earnings on Plan investments	293,779	373,327	75,528	95,003
Changes in proportion and differences between City contributions and proportionate share of contributions	64,718	326,298	20,668	36,861
City contributions subsequent to the measurement date	452,418		124,909	
Total	<u>\$ 1,815,364</u>	<u>\$ 766,397</u>	<u>\$ 432,817</u>	<u>\$ 155,639</u>

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The \$452,418 and \$124,909 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	Governmental Activities	Business- Type Activities	Total
Year ending June 30,			
2020	\$ 495,462	\$ 132,353	\$ 627,815
2021	237,042	54,381	291,423
2022	(101,525)	(25,748)	(127,273)
2023	(34,430)	(8,718)	(43,148)
Total	<u>\$ 596,549</u>	<u>\$ 152,268</u>	<u>\$ 748,817</u>

Actuarial Assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Valuation date	June 30, 2018	June 30, 2017
Experience study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	25 years	26 years
Asset valuation method	5-year smoothed marked	5-year smoothed marked
Inflation	2.30 %	2.30 %
Payroll growth	2.00 %	2.00 %
Assumed investment rate of return	6.25 %	6.25 %

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the members's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 is determined using these updated benefit provisions.

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.

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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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity:		
U.S. Large Cap	5.00 %	4.50 %
U.S. Mid Cap	6.00 %	4.50 %
U.S. Small Cap	6.50 %	5.50 %
Non U.S. Equity:		
International Developed	12.50 %	6.50 %
Emerging Markets	5.00 %	7.25 %
Global Bonds	4.00 %	3.00 %
Credit Fixed:		
Global IG Credi	2.00 %	3.75 %
High Yield*	7.00 %	5.50 %
EMD	5.00 %	6.00 %
Illiquid Private	10.00 %	8.50 %
Private Equity	10.00 %	6.50 %
Real Estate	5.00 %	9.00 %
Absolute Return	10.00 %	5.00 %
Real Return	10.00 %	7.00 %
Cash	2.00 %	1.50 %
Total	100.00 %	6.09 %

Discount Rate. The discount rate used to measure the total pension liability was 6.25%, which is the same as 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 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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NOTES TO FINANCIAL STATEMENTS
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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 %	\$ 7,787,282	\$ 2,760,483
Current discount rate	6.25 %	6,185,801	2,203,214
1% increase	7.25 %	4,844,040	1,742,527

V. POST-EMPLOYMENT BENEFITS

All eligible retired City of Harrodsburg employees participating in the CERS receive post employment 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 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, 2019. The following information was extracted from the KRS financial statements for the year ended June 30, 2018.

Under the provisions of Kentucky Revised Statue 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.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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.

Private Equity/Equity Real Estate/Real Return/Absolute Return Investments may be made for the purpose of creating a diversified portfolio of alternative investments subject to specific approval of the investment committee. 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.

The following table shows the investment allocation policy vs the actual investments as of June 30, 2018:

	Asset Allocation - Policy	Asset Allocation - Actual
U.S. Equity:		
U.S. Large Cap	5.00 %	4.50 %
U.S. Mid Cap	6.00 %	4.50 %
U.S. Small Cap	6.50 %	5.50 %
Non U.S. Equity:		
International Developed	12.50 %	6.50 %
Emerging Markets	5.00 %	7.25 %
Global Bonds	4.00 %	3.00 %
Credit Fixed:		
Global IG Credit	2.00 %	3.75 %
High Yield	7.00 %	5.50 %
EMD	5.00 %	6.00 %
Illiquid Private	10.00 %	8.50 %
Private Equity	10.00 %	6.50 %
Real Estate	5.00 %	9.00 %
Absolute Return	10.00 %	5.00 %
Real Return	10.00 %	7.00 %
Cash	2.00 %	1.50 %
Total	<u>100.00 %</u>	<u>6.09 %</u>

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

The employer rates allocable to the health insurance benefits was 5.26% in 2018 and 4.70% in 2017 for nonhazardous employees and 10.47% in 2018 and 9.35% in 2017 for hazardous employees. The contribution rates were created by statute and were 100% funded during 2019, 2018, 2017, 2016 and 2015. At June 30, 2019, the City of Harrodsburg had contributed all of the required 2019 funding.

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, 2018, insurance premiums withheld from benefit payments for members of the CERS non-hazardous and hazardous plans were \$23.8 million and \$2.8 million, respectively. For the year ended June 30, 2017, insurance premiums withheld from benefit payments for members of CERS non-hazardous and hazardous plans were \$22.9 million and \$2.7 million, respectively. The contribution by the City of Harrodsburg, Kentucky totaled \$194,015 for the year ended June 30, 2019. 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:

Years of Service	Portion Paid by KRS Insurance Fund
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 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 which is currently 1.5% based on Kentucky Revised Statutes. 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.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

Retirement System	Actuarial Value of Assets	AAL Entry Age Normal	Funded	Covered Payroll	Unfunded as Percent of Covered Payroll
KERS Non-Hazardous	\$ 887,121	\$ 2,435,506	36.4 %	\$ 1,471,477	105.2 %
KERS Hazardous	511,441	393,481	130.0 %	158,213	(74.6)%
CERS Non-Hazardous	2,371,430	3,092,623	76.7 %	2,466,801	29.2 %
CERS Hazardous	1,256,306	1,684,028	74.6 %	533,618	80.2 %
SPRS	187,535	262,088	71.6 %	48,808	152.7 %
Total Insurance Funds	\$ 5,213,833	\$ 7,867,726	66.3 %	\$ 4,678,917	56.7 %

Actuarial Methods and Assumptions. The total OPEB liability as of June 30, 2019 was calculated using the following actuarial assumptions based on the June 30, 2018, actuarial valuation report.:

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
Inflation	2.30 %	2.30 %	2.30 %	2.30 %	2.30 %
Salary increases	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %
Investment rate of return	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %
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)
Healthcare trend rates - pre 65	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years..	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare trend rates - post 65	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
As of June 30, 2018					
Single discount rate	5.86 %	5.88 %	5.85 %	5.97 %	6.02 %
Long-term expected rate of return	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %
Long-term municipal bond rate (1)	3.62 %	3.62 %	3.62 %	3.62 %	3.62 %
As of June 30, 2017					
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 %

(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, 2018 (or as of June 30, 2017).*

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	0.101564 %	4.85 %	\$ 2,342,131	0.091105 %	4.97 %	\$ 902,895
Current discount rate	0.101564 %	5.85 %	1,803,249	0.091105 %	5.97 %	649,542
1% increase	0.105664 %	6.85 %	1,344,219	0.091105 %	6.97 %	446,776

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 2018 compared to all employers in the plan. The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The single discount rates used in the reports are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Certain benefit assumptions including the mortality assumptions are from the 2013 experience study. A new experience study will be completed based on the 2018 actuarial valuation in 2019. The City's increase in OPEB cost for June 30, 2019 was \$120,366.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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	4.85 %	\$ 1,342,536	4.97 %	\$ 442,369
Current discount rate	5.85 %	1,803,249	5.97 %	649,542
1% increase	6.85 %	2,346,296	6.97 %	906,133

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

	Governmental Activities		Business-Type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total OPEB liability	\$	\$ 227,555	\$	\$ 55,178
Changes in assumptions or other inputs	464,899	4,849	94,562	1,094
Net difference between projected and actual earnings on plan investments		153,345		32,614
Changes in the employer's contributions and the employers proportionate share of plan contributions		95,959		18,028
The employer's contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability	157,505		36,510	
Total	\$ 622,404	\$ 481,708	\$ 131,072	\$ 106,914

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

The \$157,505 and \$36,510 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, 2020. 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>
2020	\$ 21,261	\$ (1,763)
2021	21,261	(1,763)
2022	(14,588)	(1,763)
2023	(12,071)	4,571
2024	(21,217)	(7,554)
Thereafter	(11,455)	(4,078)
	<u>\$ (16,809)</u>	<u>\$ (12,350)</u>

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:

<u>Type of Coverage</u>	<u>Insured Amount</u>	<u>Deductible</u>
General liability	\$ 5,000,000	\$
Public officials liability	5,000,000	10,000
Law enforcement liability	5,000,000	
Auto liability	5,000,000	
Workers compensation	4,000,000	
Property	58,070,756	1,000
Equipment	1,394,846	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, 2019 related to these potential liabilities.

During 2019, the City has entered into a memorandum of agreement with Campbellsville University, Inc. (University) to reimburse the University a total sum, not to exceed \$1,000,000 for the costs of construction of a road from Legion Drive to Sparrow Lane in the city. Reimbursement will not exceed \$200,000 annually. The reimbursement is subject to the City's financial condition and legality on an annual basis, its revenues and expenditures, and the feasibility of these reimbursements.

In addition, the City previously committed to provide the University funding of \$10,000 annually over the next three years for operations at the University's Harrodsburg branch.

CITY OF HARRODSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

At June 30, 2019, the City has entered into the following contracts:

- \$184,000 for construction of US 127 North Sanitary Sewer.
- \$159,000 for blacktopping of streets.

VIII. ECONOMIC DEPENDENCY

General Government Revenue. The City collected approximately \$1,806,000 representing 73%, of its payroll license fees and 30% of the total revenues of the General Fund from ten employers within the City limits.

Municipal Waterworks and Sewer System Revenue. The billings to twenty customers totaled approximately \$3,112,000 which represented 48.6% of the System's operating revenues.

REQUIRED SUPPLEMENTARY INFORMATION

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

- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Pension Contributions
- Schedule of Funding Progress - Other Post Employment Benefits
- Schedule of Employer 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 Six 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
2019	0.101569%	\$ 6,185,801	\$ 2,677,145	231.06%	53.54%	0.091100%	\$ 2,203,214	\$ 399,991	550.82%	49.26%
2018	0.105664%	6,184,839	2,507,438	246.66%	53.32%	0.100552%	2,249,628	477,009	471.61%	49.78%
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%

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2018.

1. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

The 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 PENSION CONTRIBUTIONS
Last Seven Fiscal Years*

	2019 *		2018 *		2017 *		2016		2015		2014		2013	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Contractually required employer contribution	\$ 440,318	\$ 128,258	\$ 376,808	\$ 103,797	\$ 360,034	\$ 120,011	\$ 444,236	\$ 171,803	\$ 414,209	\$ 200,220	\$ 364,902	\$ 275,121	\$ 359,339	\$ 294,336
Contributions relative to contractually required employer contribution	440,318	128,258	376,808	103,797	360,034	120,011	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	\$ 0	\$ 0
City's covered employee payroll	\$ 2,677,145	\$ 399,991	\$ 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	16.45%	32.07%	15.03%	21.76%	14.01%	21.74%	18.42%	34.00%	18.56%	34.42%	19.08%	36.51%	19.55%	37.60%

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

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

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.

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 Two Fiscal Year's

Actuarial Valuation Date	Non-Hazardous		Hazardous		Covered Payroll		Unfunded liability as A Percentage of Covered Payroll	
	Employer Proportion of Collective Net OPEB Liability		Employer Proportion of Collective Net OPEB Liability		Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
	Percentage	Amount	Percentage	Amount				
6/30/2018	0.101564	\$1,803,249	0.091105	\$649,542	\$2,677,145	\$399,991	67.36%	162.39%
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.

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

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 EMPLOYER CONTRIBUTIONS
OTHER POST EMPLOYMENT BENEFITS
Last Three Fiscal Year's

Non-Hazardous			Hazardous		
Fiscal Year Ended 30-June	Annual Required Contribution	Percentage Contributed	Fiscal Year Ended 30-June	Annual Required Contribution	Percentage Contributed
2019	139,048	100%	2019	54,967	100%
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.

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

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, 2019

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

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

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

Budgetary Accounting

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

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

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 1,849,286	\$ 1,849,286	\$ 1,866,759	\$ 17,473
Licenses, permits, and fees	3,484,403	3,484,403	3,432,995	(51,408)
Intergovernmental revenue	1,348,792	1,348,792	477,913	(870,879)
Service charges	121,850	121,850	141,571	19,721
Other	1,343,261	1,343,261	92,034	(1,251,227)
Total revenues	<u>8,147,592</u>	<u>8,147,592</u>	<u>6,011,272</u>	<u>(2,136,320)</u>
Expenditures:				
General government	519,648	519,648	516,398	3,250
Police department	2,545,829	2,545,829	2,537,564	8,265
Fire department	1,884,988	1,884,988	1,740,838	144,150
Street department	661,971	661,971	666,095	(4,124)
Cemeteries	449,337	449,337	390,928	58,409
Culture and recreation	234,762	234,762	214,384	20,378
Communications	505,781	505,781	311,891	193,890
Non-departmentalized	1,362,076	1,362,076	750,477	611,599
Total expenditures	<u>8,164,392</u>	<u>8,164,392</u>	<u>7,128,575</u>	<u>1,035,817</u>
Excess (deficiency) of revenues over expenditures before other financing sources	<u>(16,800)</u>	<u>(16,800)</u>	<u>(1,117,303)</u>	<u>(1,100,503)</u>
Other financing sources (uses):				
Transfers (to) from other funds			375,306	375,306
Lease proceeds			383,671	383,671
Total other financing sources (uses)			<u>758,977</u>	<u>758,977</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(16,800)</u>	<u>(16,800)</u>	<u>(358,326)</u>	<u>(341,526)</u>
Fund balance, beginning of year	<u>4,145,566</u>	<u>4,145,566</u>	<u>4,145,566</u>	
Fund balance, end of year	<u>\$ 4,128,766</u>	<u>\$ 4,128,766</u>	<u>\$ 3,787,240</u>	<u>\$ (341,526)</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes:				
Real property	\$ 310,000	\$ 310,000	\$ 297,610	\$ (12,390)
Motor vehicle	101,000	101,000	106,136	5,136
Tangible personal property	31,000	31,000	27,633	(3,367)
Public service company	11,200	11,200	15,284	4,084
Insurance premium	1,322,836	1,322,836	1,353,262	30,426
Bank deposits	55,000	55,000	54,945	(55)
Payments in lieu of taxes	18,250	18,250	11,889	(6,361)
	<u>1,849,286</u>	<u>1,849,286</u>	<u>1,866,759</u>	<u>17,473</u>
Licenses, permits, and fees:				
Payroll license fees	2,539,265	2,539,265	2,497,987	(41,278)
Net profits license fees	175,000	175,000	334,089	159,089
Business license fees	19,900	19,900	21,225	1,325
Street license fees	1,575	1,575	1,575	
ABC license fees	169,000	169,000		(169,000)
Franchise fee - cable television	56,763	56,763	58,073	1,310
Franchise fee - electric	438,500	438,500	435,959	(2,541)
Franchise fee - natural gas	84,400	84,400	84,087	(313)
	<u>3,484,403</u>	<u>3,484,403</u>	<u>3,432,995</u>	<u>(51,408)</u>
Intergovernmental revenue:				
Police pay incentive	88,000	88,000	81,175	(6,825)
Firefighters pay incentive	68,000	68,000	79,309	11,309
Police court fines	15,000	15,000	10,911	(4,089)
911 reimbursements	202,100	202,100	163,311	(38,789)
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	221,456	221,456	111,404	(110,052)
Sidewalk project	722,434	722,434		(722,434)
	<u>1,348,792</u>	<u>1,348,792</u>	<u>477,913</u>	<u>(870,879)</u>

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF REVENUE - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Service charges:				
Rental income	16,000	16,000	20,277	4,277
Police arrest fees	5,000	5,000	2,818	(2,182)
Interment, Spring Hill	68,000	68,000	76,100	8,100
Lots sold, Spring Hill	20,000	20,000	29,750	9,750
Interment, Maple Grove	3,850	3,850	3,300	(550)
Lots sold, Maple Grove	1,000	1,000	1,250	250
Monument bases	8,000	8,000	8,076	76
	<u>121,850</u>	<u>121,850</u>	<u>141,571</u>	<u>19,721</u>
Other:				
Parking fines	50	50		(50)
Penalties and interest	10,000	10,000	13,425	3,425
Interest earned	2,750	2,750	2,682	(68)
Drug investigation receipts	5,000	5,000	472	(4,528)
Sale of surplus property	80,000	80,000	3,864	(76,136)
Insurance claim receipts			13,070	13,070
Repayment of loan			20,000	20,000
Donations			1,500	1,500
Miscellaneous	<u>1,245,461</u>	<u>1,245,461</u>	<u>37,021</u>	<u>(1,208,440)</u>
	<u>1,343,261</u>	<u>1,343,261</u>	<u>92,034</u>	<u>(1,251,227)</u>
Total revenues	<u>\$ 8,147,592</u>	<u>\$ 8,147,592</u>	<u>\$ 6,011,272</u>	<u>\$ (2,136,320)</u>

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General government:				
Salaries and wages	\$ 301,046	\$ 301,046	\$ 299,486	\$ 1,560
Fringe benefits	116,602	116,602	102,008	14,594
Contractual services	64,500	64,500	62,415	2,085
Materials and supplies	21,500	21,500	17,191	4,309
Other costs	16,000	16,000	35,298	(19,298)
	<u>519,648</u>	<u>519,648</u>	<u>516,398</u>	<u>3,250</u>
Police department:				
Salaries and wages	1,008,906	1,008,906	903,609	105,297
Fringe benefits	566,675	566,675	434,961	131,714
Contractual services	95,200	95,200	107,534	(12,334)
Materials and supplies	160,100	160,100	146,139	13,961
Other costs	213,450	213,450	111,377	102,073
Capital outlay	397,500	397,500	734,204	(336,704)
Debt service	103,998	103,998	99,740	4,258
	<u>2,545,829</u>	<u>2,545,829</u>	<u>2,537,564</u>	<u>8,265</u>
Fire department:				
Salaries and wages	780,704	780,704	666,419	114,285
Fringe benefits	433,630	433,630	375,922	57,708
Contractual services	88,900	88,900	61,402	27,498
Materials and supplies	66,300	66,300	62,565	3,735
Other costs	26,000	26,000	28,293	(2,293)
Capital outlay	402,500	402,500	473,715	(71,215)
Debt service	86,954	86,954	72,522	14,432
	<u>1,884,988</u>	<u>1,884,988</u>	<u>1,740,838</u>	<u>144,150</u>
Street department:				
Salaries and wages	194,746	194,746	194,145	601
Fringe benefits	118,975	118,975	91,912	27,063
Contractual services	241,000	241,000	233,066	7,934
Materials and supplies	52,400	52,400	40,659	11,741
Other costs	8,750	8,750	7,694	1,056
Capital outlay			53,447	(53,447)
Debt service	46,100	46,100	45,172	928
	<u>661,971</u>	<u>661,971</u>	<u>666,095</u>	<u>(4,124)</u>

Continued

CITY OF HARRODSBURG, KENTUCKY
STATEMENT OF EXPENDITURES - BUDGETED AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Cemeteries:				
Salaries and wages	186,459	186,459	169,430	17,029
Fringe benefits	118,528	118,528	87,648	30,880
Contractual services	84,350	84,350	108,737	(24,387)
Materials and supplies	32,500	32,500	11,463	21,037
Other costs	7,500	7,500	3,603	3,897
Capital outlay	10,000	10,000		10,000
Debt service	10,000	10,000	10,047	(47)
	<u>449,337</u>	<u>449,337</u>	<u>390,928</u>	<u>58,409</u>
Culture and recreation:				
Salaries and wages	79,860	79,860	76,824	3,036
Fringe benefits	49,702	49,702	46,284	3,418
Contractual services	72,650	72,650	66,233	6,417
Materials and supplies	16,750	16,750	18,357	(1,607)
Other costs	7,800	7,800	6,686	1,114
Debt service	8,000	8,000		8,000
	<u>234,762</u>	<u>234,762</u>	<u>214,384</u>	<u>20,378</u>
Communications:				
Salaries and wages	231,373	231,373	185,216	46,157
Fringe benefits	118,883	118,883	87,339	31,544
Contractual services	54,625	54,625	34,480	20,145
Materials and supplies	12,500	12,500	1,307	11,193
Other costs	3,400	3,400	3,549	(149)
Capital outlay	85,000	85,000		85,000
	<u>505,781</u>	<u>505,781</u>	<u>311,891</u>	<u>193,890</u>
Non-departmentalized:				
Insurance	250,000	250,000	228,961	21,039
Grants and subsidies	1,112,076	1,112,076	521,516	590,560
	<u>1,362,076</u>	<u>1,362,076</u>	<u>750,477</u>	<u>611,599</u>
	<u>\$ 8,164,392</u>	<u>\$ 8,164,392</u>	<u>\$ 7,128,575</u>	<u>\$ 1,035,817</u>

OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

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

NON-MAJOR FUNDS

CITY OF HARRODSBURG, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
June 30, 2019

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
ASSETS				
Cash	\$ 70,304	\$ 8,622	\$ 2,500	\$ 81,426
Accounts receivable, taxes		80,682		80,682
Accounts receivable, intergovernmental	13,807			13,807
Total assets	<u>\$ 84,111</u>	<u>\$ 89,304</u>	<u>\$ 2,500</u>	<u>\$ 175,915</u>
LIABILITIES				
Accounts payable	\$ 37,388	\$	\$	\$ 37,388
FUND BALANCE				
Fund balance:				
Restircted for:				
Roads	46,723			46,723
Tourism		89,304		89,304
Police			2,500	2,500
Total fund balance	<u>46,723</u>	<u>89,304</u>	<u>2,500</u>	<u>138,527</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 84,111</u>	<u>\$ 89,304</u>	<u>\$ 2,500</u>	<u>\$ 175,915</u>

CITY OF HARRODSBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR FUNDS
For the Year Ended June 30, 2019

	<u>Municipal Aid Fund</u>	<u>Tourism Development Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Total</u>
Revenues:				
Intergovernmental revenue	\$ 170,446	\$ 5,115	\$	\$ 175,561
Restaurant tax collections		312,645		312,645
Alcohol license fee			212,679	212,679
Interest income	46	29	554	629
Total revenues	<u>170,492</u>	<u>317,789</u>	<u>213,233</u>	<u>701,514</u>
Expenditures:				
Grants and subsidies		366,266		366,266
Street department:				
Paving	309,297			309,297
Materials and supplies	27,296			27,296
Total expenditures	<u>336,593</u>	<u>366,266</u>		<u>702,859</u>
Excess (deficiency) of revenues over expenditures	(166,101)	(48,477)	213,233	(1,345)
Other financing sources (uses):				
Transfers (to) from other funds	<u>100,000</u>		<u>(474,697)</u>	<u>(374,697)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(66,101)	(48,477)	(261,464)	(376,042)
Fund balance, beginning of year	<u>112,824</u>	<u>137,781</u>	<u>263,964</u>	<u>514,569</u>
Fund balance, end of year	<u>\$ 46,723</u>	<u>\$ 89,304</u>	<u>\$ 2,500</u>	<u>\$ 138,527</u>

PROPRIETARY FUND

CITY OF HARRODSBURG, KENTUCKY
BALANCE SHEET
MUNICIPAL WATERWORKS AND SEWER SYSTEM
June 30, 2019

ASSETS

Current assets:

Cash	\$ 3,794,261
Certificates of deposit	383,697
Accounts receivable (net of allowance for doubtful accounts of \$ 540,000)	553,516
Due from other funds	10,529
Prepaid expenses	<u>234,945</u>
	<u>4,976,948</u>

Restricted assets:

Cash	1,905,981
Certificates of deposit	<u>471,005</u>
	<u>2,376,986</u>

Capital assets:

Water utility system	14,855,563
Sewer utility system	12,154,695
Water and sewer treatment plant	61,060,857
Equipment and vehicles	4,532,321
Buildings and land	835,149
Construction in progress	<u>1,371,522</u>
	94,810,107

Less accumulated depreciation 37,589,177

Capital assets, net 57,220,930

Other long term assets:

Bond issuance costs 97,583

Total assets \$ 64,672,447

Deferred outflow of resources \$ 563,889

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 71,401
Accounts payable, construction	57,982
Payroll liabilities	104,530
Unearned revenue	29,479
Customer deposits	289,899
Lease payable	<u>154,470</u>
	<u>707,761</u>

Liabilities payable from restricted assets:

Accrued interest payable	69,805
Current portion of loans payable	556,412
Current portion of bonds payable	<u>529,500</u>
	<u>1,155,717</u>

Non-current liabilities:

Bonds payable	20,269,000
Loans payable	18,464,447
Lease payable	432,692
Net pension obligation	1,624,227
Post employment benefits payable	<u>473,485</u>
	<u>41,263,851</u>

Total liabilities \$ 43,127,329

Deferred inflow of resources \$ 262,554

Net position:

Net investment in capital assets	\$ 16,814,409
Restricted	2,376,986
Unrestricted	<u>2,655,058</u>

Total net position \$ 21,846,453

CITY OF HARRODSBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES AND EXPENSES
MUNICIPAL WATERWORKS AND SEWER SYSTEM
For the Year Ended June 30, 2019

	Water Department	Sewer Department	Total
Operating revenues:			
Water sales	\$ 2,360,220	\$	\$ 2,360,220
Water taps	15,994		15,994
Sewer charges		2,663,195	2,663,195
Sewer taps		16,666	16,666
Sewer surcharge		6,197	6,197
Pre-treatment charges		114,898	114,898
Penalties	65,033	65,034	130,067
Other revenue	14,763	14,762	29,525
Total operating revenues	<u>2,456,010</u>	<u>2,880,752</u>	<u>5,336,762</u>
Operating expenses:			
Water operations	1,948,780		1,948,780
Sewer operations		1,144,034	1,144,034
Total operating expenses	<u>1,948,780</u>	<u>1,144,034</u>	<u>3,092,814</u>
Operating income before depreciation, amortization, and bad debts	<u>507,230</u>	<u>1,736,718</u>	<u>2,243,948</u>
Depreciation expense	1,362,085	1,362,084	2,724,169
Amortization expense	1,516	1,515	3,031
Bad debts	23,500	23,500	47,000
Total depreciation, amortization, and bad debts	<u>1,387,101</u>	<u>1,387,099</u>	<u>2,774,200</u>
Operating income (loss)	<u>(879,871)</u>	<u>349,619</u>	<u>(530,252)</u>
Non-operating revenues (expenses):			
Interest income	5,324	5,325	10,649
Garbage service	649,087		649,087
Sales tax	132,281		132,281
Utility tax	49,260		49,260
KY River withdrawal fee	209,583		209,583
Other income	16,835	16,834	33,669
Interest expense	(287,912)	(287,912)	(575,824)
Garbage service	(603,951)		(603,951)
Sales tax paid	(125,021)		(125,021)
Utility tax paid	(49,918)		(49,918)
KY River withdrawal fee	(284,850)		(284,850)
Non-operating revenues (expenses), net	<u>(289,282)</u>	<u>(265,753)</u>	<u>(555,035)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	<u>(1,169,153)</u>	<u>83,866</u>	<u>(1,085,287)</u>
Capital grant proceeds		1,809,406	1,809,406
Increase (decrease) in net assets	<u>\$ (1,169,153)</u>	<u>\$ 1,893,272</u>	<u>724,119</u>
Net position, beginning of year			<u>21,122,334</u>
Net position, end of year			<u>\$ 21,846,453</u>

CITY OF HARRODSBURG, KENTUCKY
SCHEDULE OF UTILITY OPERATING EXPENSES
MUNICIPAL WATERWORKS AND SEWER SYSTEM
For the Year Ended June 30, 2019

	Water Department	Sewer Department	Total
Water administration:			
Salaries and wages	\$ 97,509	\$	\$ 97,509
Fringe benefits	56,276		56,276
Contractual services	29,679		29,679
Materials and supplies	22,348		22,348
Other costs	4,173		4,173
	<hr/>		<hr/>
Total water administration	209,985		209,985
	<hr/>		<hr/>
Water operations:			
Salaries and wages	323,836		323,836
Fringe benefits	200,923		200,923
Contractual services	501,989		501,989
Materials and supplies	274,552		274,552
Other costs	15,780		15,780
	<hr/>		<hr/>
Total water operations	1,317,080		1,317,080
	<hr/>		<hr/>
Sewer operations:			
Salaries and wages		254,257	254,257
Fringe benefits		144,560	144,560
Contractual services		332,808	332,808
Materials and supplies		39,808	39,808
Other costs		27,562	27,562
		<hr/>	<hr/>
Total sewer operations		798,995	798,995
		<hr/>	<hr/>
Water and sewer maintenance:			
Salaries and wages	116,036	94,938	210,974
Fringe benefits	59,755	48,891	108,646
Contractual services	52,109	42,635	94,744
Materials and supplies	48,401	39,601	88,002
Other costs	6,549	5,358	11,907
	<hr/>	<hr/>	<hr/>
Total water and sewer maintenance	282,850	231,423	514,273
	<hr/>	<hr/>	<hr/>
Other:			
Insurance	138,865	113,616	252,481
	<hr/>	<hr/>	<hr/>
Total operating expenses	<u>\$ 1,948,780</u>	<u>\$ 1,144,034</u>	<u>\$ 3,092,814</u>

FEDERAL GRANT DISCLOSURES

CITY OF HARRODSBURG, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

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, 2019

<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	20.600	M2HVE-18-07	\$ 1,064	\$ -
Highway Safety Program	20.600	PT-2019-HY24	851	-
			<u>1,915</u>	<u>-</u>
 Sidewalk Improvement Program	 20.205	 6000-053	 <u>24,784</u>	 <u>24,784</u>
B. U.S. Department of Agriculture Rural Development:				
Direct:				
RUS Loan/Grant	10.760	20-084-1837	<u>1,748,353</u> *	<u>-</u>
C. U.S. Environmental Protection Agency:				
Passed through Commonwealth of Kentucky,				
Kentucky Infrastructure Authority				
Revolving Loan Fund	66.468	F16-049	16,643	-
			<u>\$ 1,791,695</u>	<u>\$ 24,784</u>

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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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
December 30, 2019

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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, 2019. 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, 2019.

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
December 30, 2019

CITY OF HARRODSBURG, KENTUCKY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

USDA, Rural Development Water & Waste Disposal Systems
For Rural Communities Grant and Loan Program

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, 2019

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

No matters were reported in the prior year.