

**CITY OF BARDWELL
BARDWELL, KENTUCKY
ANNUAL
FINANCIAL REPORT
June 30, 2017**

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**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, 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 Bardwell, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, Kentucky
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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 of Bardwell, Kentucky, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 and 40 and pension schedules on pages 41 - 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, Kentucky
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essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bardwell, Kentucky's basic financial statements. The detailed statement of expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The detailed statement of expenditures is the responsibility of management and was 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 detailed statement of expenditures is 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 February 16, 2018, on our consideration of the City of Bardwell, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bardwell, Kentucky's internal control over financial reporting and compliance.

Reed & Co. of Mayfield, PSC
Mayfield, Kentucky
February 16, 2018

BARDWELL CITY OFFICIALS
June 30, 2017

Philip King	Mayor
Michael Hoskins	Council Member
Edwina Turner	Council Member
Mahlon Thomas	Council Member
Diane Smith	Council Member
Ronnie Canary	Council Member
Justin Shehorn	Council Member
Adrian Burgess	City Clerk / City Treasurer
Debbie Kelly	City Manager
Mark Drysdale	Utility Clerk

CITY OF BARDWELL, KENTUCKY
STATEMENT OF NET POSITION
For the Year Ended June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 24,351	\$ 141,071	\$ 165,422
Receivables			
Taxes	11,274	0	11,274
Billed	0	99,613	99,613
Unbilled	0	128,408	128,408
Grants / Interfund	27,712	63,442	91,154
Prepays and Other Assets	0	0	0
Accrued Interest	32	16	48
Inventory	0	46,538	46,538
Restricted Cash and Cash Equivalents	0	14,520	14,520
Construction in Progress	0	0	0
Capital Assets:			
Nondepreciable	38,775	47,216	85,991
Depreciable, net of Depreciation	1,604,255	2,754,752	4,359,007
Deferred Outflows Related to Pension	44,055	153,496	197,551
Total Assets	1,750,454	3,449,072	5,199,526
LIABILITIES			
Accounts Payable	12,826	119,278	132,104
Accrued Expenses / Interfund payable	2,265	94,086	96,351
Meter Deposits	-	71,737	71,737
Compensated Absences	2,294	12,292	14,586
Net Pension Liability	161,538	547,862	709,400
Long-Term Debt	214,194	200,636	414,830
Total Liabilities	393,117	1,045,891	1,439,008
DEFERRED INFLOWS OF RESOURCES:			
Unavailable / Unearned Revenue - Property Taxes	0	0	0
Deferred Pension Amount(s)	9,177	30,303	39,480
Total Deferred Inflow of Resources	9,177	30,303	39,480
NET POSITION			
Invested in Capital Assets, Net of Related Debt	1,428,836	2,601,331	4,030,167
Restricted For:			
Meter Deposits	0	71,737	71,737
Unrestricted	(80,676)	(300,191)	(380,867)
TOTAL NET POSITION	\$ 1,348,160	\$ 2,372,877	\$ 3,721,037

The accompanying notes are an integral part of these financial statements.

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

Functions/Programs Reporting Entity	Expenses	Program Revenues			Net (Expenses) Revenue & Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 187,292	\$ 0	\$ 0	\$ 0	\$ (187,292)	\$ 0	\$ (187,292)
Protection to Persons and Property	120,953	0	23,258	0	(97,695)	0	(97,695)
Public Works	72,145	0	15,813	0	(56,332)	0	(56,332)
Interest on Short-Term Debt	6,447	0	0	0	(6,447)	0	(6,447)
Total Governmental Activities	<u>386,837</u>	<u>0</u>	<u>39,071</u>	<u>0</u>	<u>(347,766)</u>	<u>0</u>	<u>(347,766)</u>
Business-type Activities							
Bardwell Utilities	1,728,642	1,565,682	0	0	0	(162,960)	(162,960)
Total business-type activities	<u>1,728,642</u>	<u>1,565,682</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(162,960)</u>	<u>(162,960)</u>
Total Primary Government	<u>\$ 2,115,479</u>	<u>\$ 1,565,682</u>	<u>\$ 39,071</u>	<u>\$ 0</u>	<u>(347,766)</u>	<u>(162,960)</u>	<u>(510,726)</u>
General Revenues:							
Taxes:							
					55,750	0	55,750
					5,151	0	5,151
					10,436	0	10,436
					111,139	0	111,139
					85,826	0	85,826
					3	1,446	1,449
					59,677	0	59,677
					0	0	0
					(31,100)	31,100	0
				Total General Revenues	<u>296,882</u>	<u>32,546</u>	<u>329,428</u>
				Change in Net Position	<u>(50,884)</u>	<u>(130,414)</u>	<u>(181,298)</u>
				Net Position, Beginning of Year	<u>1,399,044</u>	<u>2,503,291</u>	<u>3,902,335</u>
				Net Position, End of Year	<u>\$ 1,348,160</u>	<u>\$ 2,372,877</u>	<u>\$ 3,721,037</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

**CITY OF BARDWELL, KENTUCKY
GOVERNMENTAL FUND(S)
BALANCE SHEET
For the Year Ended June 30, 2017**

	General Fund	WBFD Fund	Total Governmental Fund(s)
ASSETS			
Cash and Cash Equivalents	\$ 16,159	\$ 8,192	\$ 24,351
Grants Receivable / Interfund Receivable	27,712	0	27,712
Taxes Receivable	11,306	0	11,306
Total Assets	\$ 55,177	\$ 8,192	\$ 63,369
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	12,826	0	12,826
Accrued Wages and Benefits	4,559	0	4,559
Total Liabilities	17,385	0	17,385
Deferred Inflows of Resources			
Unavailable / Unearned Revenue - Property Taxes	0	0	0
FUND BALANCES:			
Restricted	0	8,192	8,192
Assigned	490	0	490
Unassigned	37,302	0	37,302
Total Fund Balances	37,792	8,192	45,984
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	\$ 55,177	\$ 8,192	
Reconciliation of the Balance Sheet-Governmental Funds to Statement of changes in Net Position:			
Amounts Reported for Governmental Activities In The Statement Of Net Position Are Different Because:			
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.			1,643,030
Long-Term debt is not due and payable in the current period and, therefore, is not reported in the funds as liabilities in Governmental Funds:			
Note Payable			(214,194)
Net Pension Liability			(161,538)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reportable in governmental funds:			
Deferred outflows of resources represents contributions subsequent to plan measurement date.			44,055
Deferred inflows of resources represent difference between projected and actual investment earnings.			(9,177)
NET POSITION OF GOVERNMENTAL ACTIVITIES			\$ 1,348,160

The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
GOVERNMENTAL FUND(S)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE(S)
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>WBFD Fund</u>	<u>Governmental Fund(s)</u>
REVENUES:			
Taxes	\$ 235,293	\$ 20,250	\$ 255,543
Licenses and Permits	12,760	0	12,760
Intergovernmental revenues	39,071	0	39,071
Charges for services and use of property	0	0	0
Miscellaneous	57,777	0	57,777
Interest	2	1	3
Other	0	1,900	1,900
Total Revenues	<u>344,903</u>	<u>22,151</u>	<u>367,054</u>
EXPENDITURES:			
General Government	151,292	0	151,292
Protection to Persons and Property	78,948	8,589	87,537
Public Works	67,024	0	67,024
Debt Service, Interest \$6,447		23,058	23,058
Total Expenditures	<u>297,264</u>	<u>31,647</u>	<u>328,911</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (uses)	<u>47,639</u>	<u>(9,496)</u>	<u>38,143</u>
OTHER FINANCING SOURCES (USES):			
Proceeds From Sale of Assets	0	0	0
Proceeds From Financing Obligations	0	0	0
Transfers to Other Funds	(66,600)	0	(66,600)
Transfers From Other Funds	35,500	0	35,500
Total Other Financing Sources (Uses)	<u>(31,100)</u>	<u>0</u>	<u>(31,100)</u>
Net change in Fund Balances	16,539	(9,496)	7,043
Fund Balance - Beginning	<u>21,253</u>	<u>17,688</u>	<u>38,941</u>
Fund Balance - Ending	<u>\$ 37,792</u>	<u>\$ 8,192</u>	<u>\$ 45,984</u>

The Accompanying Notes are an Integral Part of these Financial Statements

CITY OF BARDWELL, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE(S) OF GOVERNMENTAL FUND(S) TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

**Reconciliation of the Statement of Revenues and Expenditures, and
Changes in Fund Balance to Statement of Activities:**

Net Change in Fund Balance - Total Governmental Funds \$ 7,043

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	81,348
Depreciation Expense	(110,868)
Assets Disposed of, net book value	0

Loan Proceeds are treated as other financing sources in the Governmental Funds as a current financial resource, but in the Statement of Activities these proceeds are not reported as income. (40,447)

Note principal payments are expensed in the Governmental as a use of current financial resources.

Note Principal Payment	11,569
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Governmental Funds report pension contributions as expenditures using the current financial resources measurement focus. However, in the Government wide Statement of Activities, the cost of pension benefits earned is reported economic resource measurement focus and the full accrual basis of accounting.

City Pension Contribution (Deferred Outflows)	17,778
Cost of Pension Benefits Earned	(17,307)

Change in Net Position - Governmental Activities	\$ (50,884)
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The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-type Activities			
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	Total
ASSETS				
Current Assets:				
Current Cash and Cash Equivalents	\$ 106,625	\$ 31,855	\$ 2,591	\$ 141,071
Receivables:				
Billed	64,887	22,292	12,434	99,613
Unbilled	94,269	8,521	25,618	128,408
Interfund Receivable	10,388	53,054	0	63,442
Prepaid and Other Assets	0	0	0	0
Accrued Interest	0	16	0	16
Inventories	22,839	16,192	7,507	46,538
TOTAL CURRENT ASSETS	299,008	131,930	48,150	479,088
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	4,900	2,871	6,749	14,520
Capital Assets:				
Land	20,667	7,529	19,020	47,216
Plant and Equipment	1,385,337	637,748	3,774,295	5,797,380
Less Accumulated Depreciation	(818,397)	(563,621)	(1,660,611)	(3,042,629)
TOTAL NONCURRENT ASSETS	592,507	84,527	2,139,453	2,816,487
Deferred Outflows of Resources				
Deferred Pension Amounts	51,165	51,165	51,166	153,496
TOTAL ASSETS	942,680	267,622	2,238,769	3,449,071
LIABILITIES				
Current Liabilities:				
Account Payable	117,493	1,456	329	119,278
Accrued Expenses / Interfund Payable	37,310	10,388	46,388	94,086
Meter Deposits	23,119	23,792	24,826	71,737
Compensated Absences	4,097	4,098	4,097	12,292
Current Portion of Long-Term Debt	28,964	0	7,650	36,614
TOTAL CURRENT LIABILITIES	210,983	39,734	83,290	334,007
Noncurrent Liabilities:				
Net Pension Liability	207,118	140,975	199,769	547,862
Notes Payable	86,627	0	77,395	164,022
TOTAL NONCURRENT LIABILITIES	293,745	140,975	277,164	711,884
TOTAL LIABILITIES	504,728	180,709	360,454	1,045,891
Deferred Inflows of Resources:				
Deferred Pension Amounts	12,836	5,453	12,014	30,303
NET POSITION				
Invested in Capital Assets, Net of Related Debt	472,016	81,656	2,047,659	2,601,331
Restricted For:				
Meter Deposit	23,119	23,792	24,826	71,737
Unrestricted	(70,019)	(23,988)	(206,184)	(300,191)
TOTAL NET POSITION	\$ 425,116	\$ 81,460	\$ 1,866,301	\$ 2,372,877

The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Business-type Activities / Enterprise Funds				Totals
	Electric System Fund	Gas System Fund	Water System Fund	Sewer System Fund	
OPERATING REVENUES					
Charges For Services	\$ 929,032	\$307,429	\$ 102,294	\$169,037	\$ 1,507,792
Material & Miscellaneous	40,176	6,866	10,848	0	57,890
Capital Grants	0	0	0	0	0
TOTAL OPERATING REVENUES	969,208	314,295	113,142	169,037	1,565,682
OPERATING EXPENSES					
Utility Purchases	679,872	142,040	0	159,286	981,198
General Expenses	60,643	4,913	24,983	767	91,306
Wages and Related Expense	120,466	68,020	60,333	60,133	308,952
Employee Benefits	37,894	41,345	18,347	18,347	115,933
Insurance	17,275	18,580	8,472	8,473	52,800
Contract Labor	0	0	825	0	825
Fuel and Vehicle Expense	6,459	5,549	6,663	2,249	20,920
Professional Fees	0	0	0	0	0
Depreciation	35,619	8,247	51,321	51,321	146,508
TOTAL OPERATING EXPENSES	958,228	288,694	170,944	300,576	1,718,442
OPERATING INCOME (LOSS)	10,980	25,601	(57,802)	(131,539)	(152,760)
NONOPERATING REVENUES (EXPENSE)					
Interest Income	1,432	14	0	0	1,446
Interest Expense	(5,432)	0	(2,384)	(2,384)	(10,200)
TOTAL NONOPERATING REVENUES (EXPENSE)	(4,000)	14	(2,384)	(2,384)	(8,754)
Income (Loss) Before Contributions And Transfers	6,980	25,615	(60,186)	(133,923)	(161,514)
Capital Contributions					
Transfers In	33,000	43,887	0	105,700	182,587
Transfers Out	(81,437)	(50,800)	(11,250)	(8,000)	(151,487)
TOTAL CONTRIBUTIONS AND TRANSFERS	(48,437)	(6,913)	(11,250)	97,700	31,100
CHANGE IN NET POSITION	(41,457)	18,702	(71,436)	(36,223)	(130,414)
Total Net Position - Beginning	466,573	62,758	1,973,960		2,503,291
Total Net Position - Ending	\$ 425,116	\$ 81,460	\$ 1,866,301		\$ 2,372,877

The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-type Activities			Total
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers	\$ 965,031	\$ 317,810	\$ 289,842	\$ 1,572,683
Receipts From Grants- Operating	0	0	0	0
Payments to Suppliers	(742,561)	(204,794)	(189,894)	(1,137,249)
Payments To Employees	(157,076)	(108,081)	(155,876)	(421,033)
Net Cash Provided By Operating Activities	65,394	4,935	(55,928)	14,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Disposition of Fixed Assets	0	49,671	0	49,671
Transfers Net	(48,437)	(6,913)	86,450	31,100
Net Cash Provided (Used) By Noncapital Financing Activities	(48,437)	42,758	86,450	80,771
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Pension Liability / Deferred	(549)	(549)	(549)	(1,647)
Proceeds from Capital Grants	0	0	0	0
Proceeds From Loans	0	0	0	0
Principal Payment on Loans	(27,645)	(51,417)	(7,752)	(86,814)
Acquisition of Fixed Assets	0	0	(25,780)	(25,780)
Interest Paid on Loans	(5,432)	0	(4,768)	(10,200)
Net Cash (Used) Provided By Capital and Related Financing Activities	(33,626)	(51,966)	(38,849)	(124,441)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Earned	1,432	14	0	1,446
Net Cash Provided By Investing Activities	1,432	14	0	1,446
Net Increase (Decrease) in Cash and Cash Equivalents	(15,237)	(4,259)	(8,327)	(27,823)
Cash and Cash Equivalents - July 1	126,762	38,985	17,667	183,414
Cash and Cash Equivalents - June 30	<u>\$ 111,525</u>	<u>\$ 34,726</u>	<u>\$ 9,340</u>	<u>\$ 155,591</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2017

Reconciliation off Operating Income to Net Cash Provided (Used) by Operating Activities	Business-type Activities			
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	Total
Operating Income (Loss)	\$ 10,980	\$ 25,601	\$ (189,341)	\$ (152,760)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities				
Depreciation Expense	35,619	8,247	102,642	146,508
(Increase) Decrease In:				
Accounts Receivable	(12,638)	(33,995)	8,093	(38,540)
Prepaid and Other Assets	0	0	0	0
Increase (Decrease)				
Accounts Payable	32,076	6,197	21,824	60,097
Accrued Expenses	0	0	0	0
Compensated Absences	1,284	1,284	1,284	3,852
Meter Deposits	(1,927)	(2,399)	(430)	(4,756)
Net Cash Provided By Operating Activities	\$ 65,394	\$ 4,935	\$ (55,928)	\$ 14,401

The Accompanying Notes are an Integral Part of these Financial Statements.

**NOTES
SECTION**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Financial Statements of the City of Bardwell, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. The City's significant accounting policies are described below.

B. Reporting Entity

The City, for financial purposes, includes all the funds relevant to the operations of the City of Bardwell, Kentucky (the primary government). The City is also required to include in its financial statements those separately administered organizations (component units) in which the City is financially accountable for with which the City has significant operational or financial relationships. The criteria for including organizations as component units within the City's reporting entity include whether the organization is legally separate and whether the City holds the corporate powers, whether the City appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the City. Based on the foregoing criteria, the City of Bardwell has no component units.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no significant fiduciary funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, compensated absences, and claims and judgments expenditures are recorded only when payment is due.

Property taxes, franchise taxes, licenses, state and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The new model as defined in GASB No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements.

Reclassifications

The City report the following major governmental funds:

General Fund—The general fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The City receives Municipal Road Aid funds, which normally would be reported as a special revenue fund. The aid is insignificant to the overall operation. The road aid is presented as a general fund revenue.

The City reports the following major proprietary funds:

Bardwell City Utilities:

Bardwell Electric Department Fund --The Electric Department fund accounts for the revenue and costs for providing electric utility service for the residential and commercial concerns of the City.

Bardwell Water and Sewer Fund --The Water and Sewer fund accounts for the revenue and expenses related to potable water and sanitary sewer services provided to residents of the City.

Bardwell Gas Fund --The Gas fund accounts for the revenue and costs for providing gas utility service for the residential and commercial concerns of the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents —For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in checking accounts, interest-bearing deposits, and highly liquid investments with an original maturity of three months or less.

Inventories —Inventories held by the Enterprise Funds are stated at average cost on a first-in, first-out basis. The cost of inventories is recorded as expenditures when consumed.

Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value as of the date received. The cost of normal maintenance and repairs that do not add to the value of asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital assets purchased by governmental funds (general capital assets such as roads, bridges, curbs and gutters, streets and sidewalks, lighting systems, and similar assets) are recorded as expenditures in those funds when purchased. No depreciation is recorded on these general capital assets. In the government-wide statement of net assets, these assets are capitalized at cost and in the government-wide statement of activities, depreciation is reported.

Capital assets purchased by proprietary funds are capitalized at cost and shown as assets of those funds. Depreciation of capital assets of proprietary funds and governmental activities is computed over the estimated useful lives of the assets using the straight-line method and is charged as an operating expense of those funds.

The estimated useful lives are as follows:

	Useful Life (Years)
Land Improvements	10-20
Buildings and Building Improvements	15-60
Machinery and Equipment	3-15
Vehicles	3-5
Infrastructure	40-50

Compensated Absences

All full-time City employees accumulate vacation hours for later use or for payment upon termination, death or retirement. In proprietary funds, vested vacation benefits are recognized as expenses when earned by the employee and unpaid benefits are liabilities of those funds. Governmental fund types recognize the expenditure when benefits are paid. The remaining balance of the vested employees' vacation is recorded as a liability in the government-wide statements. The governmental funds typically used in prior years to liquidate the liability for compensated absences are any of the funds with payroll, which include: General Fund.

Restricted Assets

Certain proceeds of the proprietary fund, such as meter deposits, are classified as Restricted Assets on the statement of net assets because their use is limited by applicable agreement(s). Restricted assets consist of cash and certificate(s) of deposit.

Statement of Cash Flows

For purpose of the statement of cash flow, the City considers all highly liquid investments and investments with an original maturity of three months or less when purchased to be cash equivalents.

Estimates

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted Assets Component of Net Position

For the government-wide financial statements, net assets are reported as restricted when constraints placed on net assets are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Fund Equity

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, the fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Due to the implementation of GASB No. 54, the components of the fund balance of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

Fund balances are reported in the fund financial statements in the following classifications:

Nonspendable fund balance -this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Restricted fund balance -this includes amounts that can be spent for specific purposes stipulated by constitution, external resources providers, or through enabling legislation. If the council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed fund balance - this includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned fund balance -this includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance -this includes all amounts not included in other spendable classifications.

In the government-wide financial statements, net assets are classified in the following categories:

Investment in capital assets, net of related debt -this category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net position - this category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - this resulting category presents the remaining city net position and this measure of equity is unrestricted, legally or otherwise.

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 (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 the benefit terms. Investments are reported at fair value.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and / or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

The City has only one item that qualifies for reporting in this category: The pension-related deferred outflows reported in the government-wide statement of net position totaling \$197,551 at June 30, 2017, as described in Note 7 to financial statements.

In addition to liabilities, the statement of financial position and / or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City only has two items that meet this criteria: unavailable / unearned revenue-property taxes and the pension deferred inflows reported in the government-wide statement of net position totaling \$39,480 at June 30, 2017, as described in Notes 3 and 7 to financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

Fair Value Measurement

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three tiered fair value hierarchy, as follows:

- Level 1 -- Quoted prices for identical investments in active markets;
- Level 2 -- Observable inputs other than quoted market prices; and
- Level 3 -- Unobservable inputs.

The City at June 30, 2017, did not have any investments that needed to be fair value measured.

At June 30, 2017, the City had cash deposits at two banking institutions of less than \$500,000. Federal Deposit Insurance Company insurance amounted to \$250,000 at each bank for a total of \$500,000. Any excess balance at any point in time was collateralized with government securities.

State statutes require that all deposits in financial institutions be fully collateralized U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of deposits. The City's deposits, including certificates of deposit, were insured and collateralized as required by State statutes at June 30, 2017.

However, at times during the fiscal year, an amount of the City's deposits potentially could be uncollateralized. The City's deposits are categorized to give an indication of the level of risk assumed by the City on the highest daily balance during the fiscal year.

- | | |
|------------|--|
| Category 1 | Deposits which are insured or collateralized with securities held by the City or its agent at the City's name. |
| Category 2 | Deposits which are collateralized with securities held by the pledging financial institution trust department or agent in the City's name. |
| Category 3 | Deposits which are not collateralized or insured. |

Based on these three levels of risk, all of the City's cash deposits are classified as Category 2.

There are basically four types of risk related to cash and investments. They are as follows;

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned to the Utility. The City has no investment policy that limits its investment choices other than the limitations of the Kentucky Revised Statute(s).

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates in adverse affect the fair value of an investment.

At June 30, 2017, the City's exposure to these risks was limited and / or insignificant. All investments mature within one year. All deposits and investments are of the checking account, money market or certificate of deposit type with the local bank. The carrying value and market value of deposits and investments are basically the same.

NOTE 3. PROPERTY TAXES

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Carlisle County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Carlisle County, and the annual increase in the property tax levy cannot exceed 4%. Property taxes are levied October 1, and are due or payable before January 31 of the following year. For the period ending June 30, 2017, the tax rate was .270 cents per \$100 of assessed valuation of real property, .270 cents per \$100 assessed valuation of personal property, and .270 cents per \$100 of assessed valuation of tangible property. City property tax revenues are recognized as revenue basically when billed.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government				
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 38,775	\$ 0	\$ 0	\$ 38,775
Construction In Progress	0	0	0	0
Total Capital Assets Not Being Depreciated	<u>38,775</u>	<u>0</u>	<u>0</u>	<u>38,775</u>
Capital Assets, Being Depreciated:				
Buildings	604,991	0	0	604,991
Equipment	505,549	4,594	0	510,143
Vehicles	467,277	45,000	0	512,277
Infrastructure	2,816,037	31,754	0	2,847,791
Total Capital Assets Being Depreciated	<u>4,393,854</u>	<u>81,348</u>	<u>0</u>	<u>4,475,202</u>
Less Accumulated Depreciation For:				
Buildings	(195,049)	(11,100)	0	(206,149)
Equipment	(349,534)	(27,475)	0	(377,009)
Vehicles	(275,116)	(21,128)	0	(296,244)
Infrastructure	(1,940,379)	(51,166)	0	(1,991,545)
Total Accumulated Depreciation	<u>(2,760,078)</u>	<u>(110,869)</u>	<u>0</u>	<u>(2,870,947)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,633,776</u>	<u>(29,521)</u>	<u>0</u>	<u>1,604,255</u>
Governmental Activities Capital, Assets, Net	<u>\$ 1,672,551</u>	<u>\$ (29,521)</u>	<u>\$ 0</u>	<u>\$ 1,643,030</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	70,132
Protection to Persons and Property	5,121
Public Works including Infrastructure	<u>35,615</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 110,868</u>

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business - Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 47,217	\$ 0	\$ 0	\$ 47,217
Total Capital Assets Not Being Depreciated	47,217	0	0	47,217
Capital Assets Being Depreciated:				
Plant and Equipment	5,852,445	25,780	(80,844)	5,797,381
Total Capital Assets Being Depreciated	5,852,445	25,780	(80,844)	5,797,381
Less Accumulated Depreciation For:				
Plant and Equipment	(2,927,297)	(146,508)	31,176	(3,042,629)
Total Accumulated Depreciation	(2,927,297)	(146,508)	31,176	(3,042,629)
Total Capital Assets, Being Depreciated, Net	2,925,148	(120,728)	(49,668)	2,754,752
Business-Type Activities Capital Assets, Net	<u>\$ 2,972,365</u>	<u>\$ (120,728)</u>	<u>\$ (49,668)</u>	<u>\$ 2,801,969</u>

Depreciation expense was charged to functions of the business-type activities as follows:

<u>Business-type Activities:</u>	
Electric System	\$ 35,619
Gas System	8,247
Water & Sewer System	102,642
Total Depreciation Expense-Business-type Activities	<u>\$ 146,508</u>

NOTE 5. LONG-TERM DEBT

A. Primary Government - Governmental Activities

Note Payable-Citizens Deposit Bank - 2005 GMC Truck

On February 2, 2015, the City entered a note agreement with Citizens Deposit Bank in the amount of \$20,312. The purpose of the note was for the cost of a 2005 GMC pickup truck. Principal and interest payments are due for 48 months with 47 months at \$200 and a balloon payment of \$13,600, including interest. The rate of interest on this note agreement is variable 3.95%. As of June 30, 2017, the balance due was \$16,438. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2018	2,837	719
2019	13,601	368
Totals	<u>\$ 16,438</u>	<u>\$ 1,087</u>

Note Payable-Citizens Deposit Bank - 2007 Fire Truck

On October 21, 2015, the City entered into a note agreement with Citizens Deposit Bank in the amount of \$130,287. The purpose of the note was for purchasing a 2007 fire truck. The rate of interest on this note agreement is 3.250%, variable with annual payments due beginning December 21, 2016. As of June 30, 2017, the balance due was \$123,805. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2018	2,708	4,085
2019	2,797	3,996
2020	2,889	3,904
2021	2,985	3,808
2022-2029	112,426	29,432
Totals	<u>\$ 123,805</u>	<u>\$ 45,225</u>

Note Payable-Citizens Bank-1990 Ford Semi Tanker (Water Hauler)

On September 26, 2016, the City entered into an original note agreement with Citizens Deposit Bank for the amount of \$40,447. The purpose of this loan was for the cost of purchasing a 1990 Ford Semi Tanker. Rate of interest is 3.95%. As of June 30, 2017, the balance due was \$40,447, with annual principal and interest payments due in September each year in the amount of \$9,073.

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2017	7,446	1,627
2018	7,745	1,328
2019	8,057	1,016
2020	8,381	692
	8,818	355
Totals	<u>\$ 40,447</u>	<u>\$ 5,018</u>

On October 1, 2015, the City entered into a note agreement with First Kentucky Bank in the amount of \$41,268. The purpose of the note was for purchasing additional building space for the Fire Department. The rate of interest on this note agreement is 3.0%, with annual payments due in October. As of June 30, 2017, the balance due was \$33,504. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2018	8,004	1,019
2019	8,247	776
2020	8,498	525
	8,755	271
Totals	\$ 33,504	\$ 2,591

B. Business-Type Activities

Note Payable-Citizens Bank-2009 Bucket Truck

On November 16, 2009, the City entered into a note agreement with Citizens Deposit Bank in the amount of \$109,225. The purpose of the note was for cost of a bucket truck. The rate of interest on this note agreement is 5.0%. As of June 30, 2017 the balance due was \$31,692. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2018	9,568	1,367
2019	10,058	877
2020	12,066	50
Totals	\$ 31,692	\$ 2,294

Note Payable-Citizens Bank-Line of Credit

On October 30, 2012 the City entered into an original note agreement with Citizens Deposit Bank for the amount of \$46,122. The purpose of this loan was for operating expenses. Rate of interest on this loan agreement is 3.95%. Management plans to renew the Line of Credit on a yearly basis until the note can be retired. The remaining balance currently for the Line of Credit as of June 30, 2017 is \$24,433 with one principal and interest payment due October, 2017.

Note Payable-Citizens Bank-Line of Credit

On July 2, 2010 the City entered into an original note agreement with Citizens Deposit Bank for the amount of \$100,400. The purpose of this loan was for operating expenses. Rate of interest on this loan agreement is 3.65%. Management plans to renew the Line of Credit on a yearly basis until the note can be retired. The remaining balance currently for the Line of Credit as of June 30, 2017 is \$59,465 with one principal and interest payment due November, 2017.

Note Payable-Citizens Bank-Waste Water System

In January of 2011, the City used their certificates of deposit to pay down on the water and wastewater notes payable at Citizens Deposit Bank and reissue a new note. This note is secured by certificates of deposit. Rate of interest on this loan agreement is 4.95%. Original balance of the note was \$131,553. As of June 30, 2017 the balance due was \$85,045. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	8,213	4,308
2019	8,659	3,862
2020	9,129	3,391
2021	9,625	2,896
2022-2028	49,419	6,064
Totals	<u>\$ 85,045</u>	<u>\$ 20,521</u>

C. Changes in Long-Term Debt

Long-Term debt activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Government Activities:</u>					
Note Payable-Citizens Bank	\$ 17,309	\$ 0	\$ (871)	\$ 16,438	\$ 951
Note Payable-Citizens Bank	126,739	0	(2,934)	123,805	3,083
Note Payable-Citizens Bank	0	40,447	0	40,447	7,746
Note Payable-First KY Bank	41,268	0	(7,764)	33,504	8,247
Government Activities Long-Term Liabilities	<u>\$ 185,316</u>	<u>\$ 40,447</u>	<u>\$ (11,569)</u>	<u>\$ 214,194</u>	<u>\$ 20,027</u>
<u>Business-Type Activities:</u>					
Capital Lease-John Deere Fin.	\$ 51,416	\$ 0	\$ (51,416)	\$ 0	\$ 0
Note Payable-Citizens Bank	40,778	0	(9,086)	31,692	9,086
Note Payable-Citizens Bank	33,560	0	(9,127)	24,433	8,499
Note Payable-Citizens Bank	68,897	0	(9,432)	59,465	11,379
Note Payable-Citizens Bank	92,797	0	(7,752)	85,045	7,650
Business-Type Activities Long-term Liabilities	<u>\$ 287,448</u>	<u>\$ 0</u>	<u>\$ (86,813)</u>	<u>\$ 200,635</u>	<u>\$ 36,614</u>

NOTE 6. INTEREST ON LONG-TERM DEBT

Interest on Short-term and Long-term debt on the Statement of Activities includes \$3,132 in interest on notes in the governmental activities.

NOTE 7. EMPLOYEE RETIREMENT SYSTEM / PENSION PLAN

The City participates in the County Employees Retirement System (CERS)

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description -- Employees whose positions do not require a college degree beyond a high school diploma are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 year service and 55 years old At least 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+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service.

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions -- Required contributions by the employee are based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the City was as follows:

City's proportionate share of the CERS pension liability	<u>\$709,400</u>
--	------------------

The net pension liability of the plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportion was 0.01454%.

For the year ended June 30, 2017, the City's recognized pension expense was <2,020>. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>County Employees Retirement System (CERS)</u>		
Differences between expected and actual experience	\$ 5,596	\$ -
Change of assumptions	67,893	-
Net differences between projected and actual earnings on pension plan investments	56,715	39,480
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
Library contributions subsequent to the measurement date	67,347	-
Total	<u>\$ 197,551</u>	<u>\$ 39,480</u>

The amount of \$67,347 reported as deferred outflows of resources related to CERS pensions 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 ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	Deferred Outflows Measurement Period		Deferred Outflows Measurement Period		Effect on Pension
	2016	2015	2016	2015	Total
2018	\$ 32,551	\$ 0	\$ 0	\$ (19,740)	\$ 12,811
2019	32,551	0	0	(19,740)	12,811
2020	32,551	0	0	0	32,551
2021	32,551	0	0	0	32,551

Actuarial assumptions -- The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense and inflation	7.50%

For CERS, the mortality table used for active members is the 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 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.

For CERS, 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 assumption 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 by then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is

not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetical real rates of return for each major asset class are summarized in the following table.

Measurement Period 2015 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Combined equity	44.00%	5.40%
Combined fixed income	19.00%	1.50%
Real return (diversified inflation strategies)	10.00%	3.50%
Real estate	5.00%	4.50%
Absolute return (diversified hedge funds)	10.00%	4.25%
Private equity	10.00%	8.50%
Cash equivalent	2.00%	25.00%
Total	100.00%	

Discount rate -- For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate -- The following table presents the net pension liability of the City calculated using the discount rates selected by each pension system, as well as what the City's net pension 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 rate.

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
The City's proportionate share of net pension liability	\$884,144	\$709,400	\$559,783

Pension plan fiduciary net position -- Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance

for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which the District participates. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems. For member participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more 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 (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 ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

NOTE 9. INSURANCE

For the fiscal year ended June 30, 2017, City of Bardwell was a member of the Kentucky League of Cities Insurance Service. KLCIS is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials’ errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 10. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, professional liability (i.e. errors and omissions), environmental damage, workers’ compensation, and medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. The City participated in a state-wide insurance association, (KLCIS) for workers’ compensation and for general and automobile coverage. Employee medical insurance is provided through a privately administered plan.

NOTE 11. INTERFUND TRANSFERS

As of June 30, 2017, interfund transfers consist of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Electric Fund	<u>\$ 33,000</u>	<u>\$ 81,437</u>
Gas Fund	<u>\$ 43,887</u>	<u>\$ 50,800</u>
Water / Sewer Funds	<u>\$ 105,700</u>	<u>\$ 19,250</u>
General Fund	<u>\$ 35,500</u>	<u>\$ 66,600</u>

NOTE 12. BUDGETARY INFORMATION

Through the budget, the City Council sets the directions of the City, allocates its resources and establishes its priorities. The Annual Budget ensures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council by June 1. Budgets are adopted using basically the same basis of accounting as used for financial statement reporting purposes.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official

newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and becomes effective upon approval by the Council.

Budgeted amounts are as originally adopted or as amended by the City Council.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date these financial statements were available to be issued - February 16, 2018.

NOTE 14. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In fiscal year 2016, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB No. 68), which amends or supersedes the accounting and financial reporting guidance for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts. The objective is to improve accounting and financial reporting for pensions by state and local governments.

Under GASB No. 68, the liability to be recognized by participating employers is measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer result primarily from changes in the components of the net pension liability, as detailed in Note 7 to financial statements.

NOTE 15. NEW GASB PRONOUNCEMENTS

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, address reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of charges in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB 75, recognize on the face of the financial statements it's net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB 75 is effective one year later.

**SUPPLEMENTARY
INFORMATION**

CITY OF BARDWELL
BUDGETARY COMPARISON SCHEDULE
Required Supplementary Information
For The Year Ended June 30, 2017

	GENERAL FUND			
	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 211,650	\$ 211,650	\$ 235,293	\$ 23,643
Licenses and Permits	3,000	3,000	12,760	9,760
Intergovernmental Revenues	214,600	214,600	39,071	(175,529)
Charges for Services	0	0	0	0
Miscellaneous	18,000	18,000	57,777	39,777
Interest	1,000	1,000	2	(998)
Total Revenues	<u>448,250</u>	<u>448,250</u>	<u>344,903</u>	<u>(103,347)</u>
EXPENDITURES				
General government	219,998	219,998	151,292	68,706
Protection to Persons and Property	146,840	146,840	78,948	67,892
Public Works	103,109	103,109	67,024	36,085
Debt Service	15,000	15,000	0	15,000
Total Expenditures	<u>484,947</u>	<u>484,947</u>	<u>297,264</u>	<u>187,683</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(36,697)</u>	<u>(36,697)</u>	<u>47,639</u>	<u>84,336</u>
OTHER FINANCING SOURCES (USES)				
Transfer To Other Funds	0	0	(66,600)	(66,600)
Transfers From Other Funds	68,000	68,000	35,500	(32,500)
Total Other Financing Sources (Uses)	<u>68,000</u>	<u>68,000</u>	<u>(31,100)</u>	<u>(99,100)</u>
Net Changes in Fund Balance	31,303	31,303	16,539	(14,764)
Fund Balance – Beginning	<u>0</u>	<u>0</u>	<u>21,253</u>	<u>21,253</u>
Fund Balance - Ending	<u>\$ 31,303</u>	<u>\$ 31,303</u>	<u>\$ 37,792</u>	<u>\$ 6,489</u>

See auditor's report and notes to the financial statements.

CITY OF BARDWELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

BUDGETARY INFORMATION

Through the budget, the City Council sets the directions of the City, allocates its resources and establishes its priorities. The annual Budget ensures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

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Budgeted amounts are as originally adopted or as amended by the City Council.

See auditor's report and notes to the financial statements.

CITY OF BARDWELL
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
County Employees Retirement System

Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.014410%	0.014540%	0.014709%
City's proportionate share of the net pension liability	\$ 709,400	\$ 625,221	\$ 477,215
City's covered-employee payroll	\$ 362,469	\$ 344,304	\$ 337,441
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	195.71%	181.59%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

*The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end. Fiscal year 2015 as the first year of implementation.

**CITY OF BARDWELL
SCHEDULE OF CONTRIBUTIONS
County Employees Retirement System**

Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 67,347	\$ 58,753	\$ 59,625	\$ 63,743
Contributions in relation to the contractually required contributions	<u>67,347</u>	<u>58,753</u>	<u>59,625</u>	<u>63,743</u>
Contribution (excess) deficiency	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered-employee payroll	\$ 362,469	\$ 344,304	\$ 337,441	\$ 337,441
Contributions as a percentage of covered-employee payroll	18.68%	17.06%	17.67%	18.89%

* GASB was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See auditor's report and notes to the financial statements.

CITY OF BARDWELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN
June 30, 2017

NOTE 1 -- COUNTY EMPLOYEES RETIREMENT SYSTEM (NON-HAZARDOUS)

Changes of benefit terms (None in the current year)

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015, listed below:

2009

A new benefit tier for members who first participate on or after September 1, 2008, was introduced which included the following changes:

- Tiered structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014

For members whose participation date is on or after January 1, 2014, a cash balance plan was introduced.

Changes of assumptions

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, listed below:

2016

- No changes were made.

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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).

See auditor's report and notes to the financial statements.

- 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 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.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contributions rates are determined on an annual basis beginning with the fiscal year ended 2017, determined as of June 30, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2014 to a close 30-year period.

The following actuarial methods and assumptions were used to determine contribution rates reports in that schedule:

- | | |
|---------------------------------|--|
| ● Actuarial cost method | Entry age |
| ● Amortization method | Level of percentage of payroll, closed |
| ● Remaining amortization period | 28 years |
| ● Asset valuation method | 5-year smoother market |
| ● Inflation | 3.25% |
| ● Salary increase | 4.00%, average, including inflation |
| ● Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |

See auditor's report and notes to the financial statements.

CITY OF BARDWELL
DETAILED STATEMENT OF EXPENDITURES
SUPPLEMENTARY INFORMATION
GOVERNMENTAL FUND
For The Year Ended June 30, 2017

	General Administrative	Public Work	Public Safety Fire	West Bardwell Fire Dept	Police	Total Government Activities
Salaries	\$ 19,200	\$ 41,106	\$ 0	\$ 0	\$ 43,136	\$ 103,442
Payroll taxes	735	3,061	0	0	3,112	6,908
Retirement	0	7,629	0	0	6,724	14,353
Health & Life insurance	0	0	0	0	0	0
Telephone	1,354	0	361	0	675	2,390
Postage	1,090	0	0	0	0	1,090
Professional fees	6,452	0	0	0	0	6,452
Tax bill preparation	1,287	0	0	0	0	1,287
Legal services	6,000	0	0	0	0	6,000
Advertising	667	0	0	0	0	667
Offices supplies & equipment	19,401	0	12,559	0	0	31,960
Software support	0	0	0	0	0	0
Professional dues	929	0	0	0	0	929
Community projects	0	0	0	0	0	0
Insurance and bonds	19,596	0	0	0	0	19,596
Travel and entertaining	9,162	0	0	0	0	9,162
Building maintenance	0	0	0	0	0	0
Miscellaneous	65,419	3,843	0	0	0	69,262
City clean up	0	0	0	0	0	0
Uniforms	0	0	0	0	342	342
Fuel	0	3,154	267	5,126	1,534	10,081
Equipment & vehicle maint.	0	6,624	4,446	3,313	3,496	17,879
Education	0	0	96	0	0	96
Supplies	0	1,607	0	0	0	1,607
Capital expenditures	0	0	0	0	0	0
Street maintenance	0	0	0	0	0	0
Contract Labor	0	0	0	150	0	150
Total Expenses	<u>151,292</u>	<u>67,024</u>	<u>17,729</u>	<u>8,589</u>	<u>59,019</u>	<u>303,653</u>
Debt service	0	0	2,200	23,058	0	25,258
Total Expenses and Transfers	<u>\$ 151,292</u>	<u>\$ 67,024</u>	<u>\$ 19,929</u>	<u>\$ 31,647</u>	<u>\$ 59,019</u>	<u>\$ 328,911</u>

See Auditor's report and notes to the financial statements.

**ADDITIONAL
INFORMATION**

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

To the Honorable Mayor Philip King
And Members of the City Council
Bardwell, 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 Bardwell, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Bardwell, Kentucky's basic financial statements and have issued our report thereon dated February 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bardwell, Kentucky'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 City of Bardwell, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bardwell, Kentucky's internal control.

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

To the Honorable Mayor Philip King
And Members of the City Council
Page Two

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. [2017-1 and 2017-2]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bardwell, Kentucky's financial statements are free of material misstatement, we performed test 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 a 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*.

City of Bardwell, Kentucky's Response to Findings

City of Bardwell, Kentucky's response to the findings identified in our audit are described in the accompanying schedule of findings. City of Bardwell, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Reed & Co. of Mayfield, PSC
Certified Public Accountants
Mayfield, Kentucky
February 16, 2018

CITY OF BARDWELL, KENTUCKY
SCHEDULE OF FINDING(S)
For the Year Ended June 30, 2017

FINDING(S) - FINANCIAL STATEMENT AUDIT

2017-1 - Lack of Segregation of Duties

Statement of Condition:

Due to the size of administrative staff, internal control is limited and adequate segregation of duties does not exist.

Criteria:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that money received and disbursed is safeguarded against loss from unauthorized use, and that transactions are excluded in accordance with management's authorization.

Cause:

The staff size of the City of Bardwell, Kentucky, limits the ability to rotate duties and implement certain checking procedures.

Effect:

This limitation may affect the City's ability to record, process, summarize and report financial data consistent with management's authorization. The possibility of the City's funds being misappropriated by a single employee is increased.

Recommendation:

Management should strive to separate duties, including procedures related to the reconciliation of the bank statements to the books (check book, etc.); and procedures related to the receipt of unopened bank statements and review of the bank statement transactions by a person not involved in the deposit of funds and/or signing of checks.

View(s) of Responsible Officials and Planning Corrective Actions:

We concur with the recommendation and the finding. The City Council will discuss the matter with key personnel.

2017-2 - Financial Reporting

Statement of Condition:

The auditor, from the City's books of original entry, assisted in the drafting of the financial statements and notes for the City.

Criteria:

Internal controls should be in place for the chairman to review and approve monthly or quarterly generally accepted accounting principles (GAAP) financial statements and notes. The City is to accept full responsibility for the accuracy of the GAAP financial statements and notes.

Cause:

The City does not have appropriate procedures in place to achieve the criteria.

Effect:

Based upon the entity's present financial statements, the City's auditor is assisting in preparing the annual audited financial statements including notes.

Recommendation:

Procedures should be implemented to allow the City to prepare their own monthly or quarterly GAAP financial statements and notes without assistance from the auditor(s).

View(s) of Responsible Officials and Planned Corrective Actions:

Management is aware of the situation regarding the preparation of GAAP financial statements and is currently looking into the best way to handle the situation.