

**CITY OF BARDWELL
BARDWELL, KENTUCKY**

**ANNUAL
FINANCIAL REPORT**

June 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 8 and 14 to the financial statements, during the year ended June 30, 2018 the City of Bardwell, Kentucky adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, which resulted in a restatement of the Board's July 1, 2017 net position in the amount of \$233,957. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 44 and 45 and pension schedules on pages 46 - 52 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

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, Kentucky
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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 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 15, 2019, on our consideration of the City of Bardwell, Kentucky's internal control over financial reporting

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, Kentucky
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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 15, 2019

BARDWELL CITY OFFICIALS

June 30, 2018

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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 32,501	\$ 122,169	\$ 154,670
Receivables			
Taxes	11,274	-	11,274
Billed	-	124,659	124,659
Unbilled	-	134,892	134,892
Grants / Interfund	32,588	130,913	163,501
Prepays and Other Assets	-	-	-
Accrued Interest	32	16	48
Inventory	-	46,893	46,893
Restricted Cash and Cash Equivalents	-	32,284	32,284
Construction in Progress	-	-	-
Capital Assets:			
Nondepreciable	38,775	47,216	85,991
Depreciable, net of Depreciation	1,495,371	2,629,858	4,125,229
Deferred Outflows Related to Pension	67,888	236,539	304,427
Deferred Outflows Related to OPEB	18,729	65,256	83,985
Total Assets	1,697,158	3,570,695	5,267,853
LIABILITIES			
Accounts Payable	16,650	13,802	30,452
Accrued Expenses / Interfund payable	15,886	154,508	170,394
Meter Deposits	-	76,215	76,215
Compensated Absences	480	14,514	14,994
Net Pension Liability	197,856	674,405	872,261
Net OPEB Liability	66,807	232,773	299,580
Long-Term Debt	252,915	99,225	352,140
Total Liabilities	550,594	1,265,442	1,816,036
DEFERRED INFLOWS OF RESOURCES:			
Unavailable / Unearned Revenue - Property Taxes	-	-	-
Deferred Pension Amount(s)	18,972	64,431	83,403
Deferred OPEB Amount	3,498	12,189	15,687
Total Deferred Inflow of Resources	22,470	76,620	99,090
NET POSITION			
Invested in Capital Assets, Net of Related Debt	1,281,231	2,577,849	3,859,080
Restricted For:			
Meter Deposits	-	76,215	76,215
Unrestricted	(157,137)	(425,431)	(582,568)
TOTAL NET POSITION	\$ 1,124,094	\$ 2,228,633	\$ 3,352,727

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, 2018**

	General Fund	WBFD Fund	Total Governmental Fund(s)
ASSETS			
Cash and Cash Equivalents	\$ 26,749	\$ 5,752	\$ 32,501
Grants Receivable / Interfund Receivable	32,588	-	32,588
Taxes Receivable	11,306	-	11,306
Total Assets	\$ 70,643	\$ 5,752	\$ 76,395
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	30,575	-	30,575
Accrued Wages and Benefits	2,441	-	2,441
Total Liabilities	33,016	-	33,016
Deferred Inflows of Resources			
Unavailable / Unearned Revenue - Property Taxes	-	-	-
FUND BALANCES:			
Restricted	-	5,752	5,752
Assigned	1,360	-	1,360
Unassigned	36,267	-	36,267
Total Fund Balances	37,627	5,752	43,379
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	\$ 70,643	\$ 5,752	

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.	1,534,146
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	(252,915)
Net Pension Liability	(197,856)
Net OPEB Liability	(66,807)
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.	86,617
Deferred inflows of resources represent difference between projected and actual investment earnings.	(22,470)

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 1,124,094

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, 2018

	<u>General Fund</u>	<u>WBFD Fund</u>	<u>Governmental Fund(s)</u>
REVENUES:			
Taxes	\$ 253,055	\$ 20,050	\$ 273,105
Licenses and Permits	12,910	-	12,910
Intergovernmental revenues	73,106	-	73,106
Charges for services and use of property	58,768	-	58,768
Miscellaneous	14,590	-	14,590
Interest	2	1	3
Other	-	7,120	7,120
Total Revenues	<u>412,431</u>	<u>27,171</u>	<u>439,602</u>
EXPENDITURES:			
General Government	143,967	-	143,967
Protection to Persons and Property	63,562	3,016	66,578
Public Works	130,994	-	130,994
Debt Service, Interest \$6,447	29,649	26,595	56,244
Total Expenditures	<u>368,172</u>	<u>29,611</u>	<u>397,783</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (uses)	<u>44,259</u>	<u>(2,440)</u>	<u>41,819</u>
OTHER FINANCING SOURCES (USES):			
Proceeds From Sale of Assets	-	-	-
Proceeds From Financing Obligations	-	-	-
Transfers to Other Funds	(117,000)	-	(117,000)
Transfers From Other Funds	71,550	-	71,550
Total Other Financing Sources (Uses)	<u>(45,450)</u>	<u>-</u>	<u>(45,450)</u>
Net change in Fund Balances	(1,191)	(2,440)	(3,631)
Fund Balance - Beginning	<u>38,818</u>	<u>8,192</u>	<u>47,010</u>
Fund Balance - Ending	<u>\$ 37,627</u>	<u>\$ 5,752</u>	<u>\$ 43,379</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, 2018

**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 \$ (3,631)

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	-
Depreciation Expense	(108,884)
Assets Disposed of, net book value	-

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. -

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

Note Principal Payment	45,176
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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)	23,834
City OPEB Contribution (Deferred Outflows)	18,729
Cost of Pension Benefits Earned	(46,113)
Cost of OPEB Benefits Earned	(17,903)
	(17,903)

Change in Net Position - Governmental Activities	\$ (88,792)
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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, 2018

ASSETS	Business-type Activities			
	Enterprise Funds			Total
	Electric System Fund	Gas System Fund	Water And Sewer Fund	
Current Assets:				
Current Cash and Cash Equivalents	\$ 117,586	\$ 5,989	\$ (1,406)	\$ 122,169
Receivables:				
Billed	88,109	13,587	22,963	124,659
Unbilled	101,786	8,638	24,468	134,892
Interfund Receivable	29,313	101,600	0	130,913
Prepaid and Other Assets	0	0	0	0
Accrued Interest	0	16	0	16
Inventories	22,839	16,192	7,862	46,893
TOTAL CURRENT ASSETS	359,633	146,022	53,887	559,542
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	9,593	8,952	13,739	32,284
Capital Assets:				
Land	20,667	7,529	19,020	47,216
Plant and Equipment	1,328,378	643,830	3,775,673	5,747,881
Less Accumulated Depreciation	(790,620)	(572,480)	(1,754,923)	(3,118,023)
TOTAL NONCURRENT ASSETS	568,018	87,831	2,053,509	2,709,358
Deferred Outflows of Resources				
Deferred Pension Amounts	78,846	78,846	78,847	236,539
Deferred OPEB Amounts	21,752	21,752	21,752	65,256
TOTAL OUTFLOWS	100,598	100,598	100,599	301,795
TOTAL ASSETS	1,028,249	334,451	2,207,995	3,570,695
LIABILITIES				
Current Liabilities:				
Account Payable	8,435	2,703	2,664	13,802
Accrued Expenses / Interfund Payable	71,994	10,388	72,126	154,508
Meter Deposits	24,312	26,587	25,316	76,215
Compensated Absences	4,838	4,838	4,838	14,514
Current Portion of Long-Term Debt	9,829	0	8,659	18,488
TOTAL CURRENT LIABILITIES	119,408	44,516	113,603	277,527
Noncurrent Liabilities:				
Net Pension Liability	249,299	183,156	241,950	674,405
Net OPEB Liability	77,591	77,591	77,591	232,773
Notes Payable	12,306	0	68,431	80,737
TOTAL NONCURRENT LIABILITIES	339,196	260,747	387,972	987,915
TOTAL LIABILITIES	458,604	305,263	501,575	1,265,442
Deferred Inflows of Resources:				
Deferred Pension Amounts	24,212	16,829	23,390	64,431
Deferred OPEB Amounts	4,063	4,063	4,063	12,189
TOTAL INFLOWS	28,275	20,892	27,453	76,620
NET POSITION				
Invested in Capital Assets, Net of Related Debt	536,290	78,879	1,962,680	2,577,849
Restricted For:				
Meter Deposit	24,312	26,587	25,316	76,215
Unrestricted	(19,232)	(97,170)	(309,029)	(425,431)
TOTAL NET POSITION	\$ 541,370	\$ 8,296	\$ 1,678,967	\$ 2,228,633

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, 2018

	Business-type Activities / Enterprise Funds				Totals
	Electric System Fund	Gas System Fund	Water System Fund	Sewer System Fund	
OPERATING REVENUES					
Charges For Services	\$ 981,907	\$384,282	\$ 114,114	\$178,799	\$ 1,659,102
Material & Miscellaneous	31,555	150	(2,543)	-	29,162
Capital Grants	18,925	-	3,115	-	22,040
TOTAL OPERATING REVENUES	1,032,387	384,432	114,686	178,799	1,710,304
OPERATING EXPENSES					
Utility Purchases	584,352	196,179	-	159,074	939,605
General Expenses	65,883	11,367	27,184	52	104,486
Wages and Related Expense	133,152	74,579	66,692	66,885	341,308
Employee Benefits	45,136	45,136	35,027	10,109	135,408
Insurance	36,482	36,165	18,082	18,082	108,811
Contract Labor	-	1,158	-	-	1,158
Fuel and Vehicle Expense	5,845	6,580	2,296	2,424	17,145
Professional Fees	-	1,630	-	-	1,630
Depreciation	35,264	8,859	51,464	51,464	147,051
TOTAL OPERATING EXPENSES	906,114	381,653	200,745	308,090	1,796,602
OPERATING INCOME (LOSS)	126,273	2,779	(86,059)	(129,291)	(86,298)
NONOPERATING REVENUES (EXPENSE)					
Interest Income	1,471	20	-	-	1,491
Interest Expense	(1,478)	(101)	(2,313)	(2,312)	(6,204)
TOTAL NONOPERATING REVENUES (EXPENSE)	(7)	(81)	(2,313)	(2,312)	(4,713)
Income (Loss) Before Contributions And Transfers	126,266	2,698	(88,372)	(131,603)	(91,011)
Capital Contributions					
Transfers In	36,500	46,400	93,500	-	176,400
Transfers Out	(69,550)	(61,400)	-	-	(130,950)
TOTAL CONTRIBUTIONS AND TRANSFERS	(33,050)	(15,000)	93,500	-	45,450
CHANGE IN NET POSITION	93,216	(12,302)	5,128	(131,603)	(45,561)
Total Net Position - Beginning of Year	425,116	81,460	1,866,301		2,372,877
Implementation of GASB No. 75	23,038	(60,862)	(60,859)		(98,683)
Total Net Position, as Restated	448,154	20,598	1,805,442		2,274,194
Total Net Position - End of Year	\$ 541,370	\$ 8,296	\$ 1,810,570		\$ 2,228,633

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, 2018

	Business-type Activities			Total
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers	\$ 983,916	\$ 395,815	\$ 281,481	\$ 1,661,212
Receipts From Grants- Operating	18,925	-	3,115	22,040
Payments to Suppliers	(785,861)	(300,378)	(199,476)	(1,285,715)
Payments To Employees	(177,547)	(118,975)	(177,972)	(474,494)
Net Cash Provided By Operating Activities	39,433	(23,538)	(92,852)	(76,957)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Disposition of Fixed Assets	-	-	-	-
Transfers Net	(33,050)	(15,000)	93,500	45,450
Net Cash Provided (Used) By Noncapital Financing Activities	(33,050)	(15,000)	93,500	45,450
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Pension / OPEB Liability / Deferred	108,816	24,916	24,919	158,651
Proceeds from Capital Grants	-	-	-	-
Proceeds From Loans	-	-	-	-
Principal Payment on Loans	(93,456)	-	(7,955)	(101,411)
Acquisition of Fixed Assets	(6,082)	(6,082)	(9,994)	(22,158)
Interest Paid on Loans	(1,478)	(101)	(4,625)	(6,204)
Net Cash (Used) Provided By Capital and Related Financing Activities	7,800	18,733	2,345	28,878
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Earned	1,471	20	-	1,491
Net Cash Provided By Investing Activities	1,471	20	-	1,491
Net Increase (Decrease) in Cash and Cash Equivalents	15,654	(19,785)	2,993	(1,138)
Cash and Cash Equivalents - July 1	111,525	34,726	9,340	155,591
Cash and Cash Equivalents - June 30	<u>\$ 127,179</u>	<u>\$ 14,941</u>	<u>\$ 12,333</u>	<u>\$ 154,453</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, 2018

Reconciliation off Operating Income to Net Cash Provided (Used) by Operating Activities	Business-type Activities			Total
	Electric System Fund	Gas System Fund	Water And Sewer Fund	
Operating Income (Loss)	\$ 126,273	\$ 2,779	\$ (215,350)	\$ (86,298)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities				
Depreciation Expense	35,264	8,859	102,928	147,051
(Increase) Decrease In:				
Accounts Receivable	(49,664)	(39,958)	(9,379)	(99,001)
Prepaid and Other Assets	-	-	(355)	(355)
Increase (Decrease)				
Accounts Payable	(74,374)	1,247	28,073	(45,054)
Accrued Expenses	-	-	-	-
Compensated Absences	741	740	741	2,222
Meter Deposits	1,193	2,795	490	4,478
Net Cash Provided By Operating Activities	<u>\$ 39,433</u>	<u>\$ (23,538)</u>	<u>\$ (92,852)</u>	<u>\$ (76,957)</u>

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, 2018

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

Where presented, certain 2018 financial statement amounts may have been reclassified to conform to the 2019 presentation.

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 Equivalent*s —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:

	<u>Useful Life (Years)</u>
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 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 two items that qualifies for reporting in this category: The pension and OPEB related deferred outflows reported in the government-wide statement of net position totaling \$388,412 at June 30, 2018, 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 has three items that meet this criteria: unavailable / unearned revenue-property taxes, the pension and OPEB deferred inflows reported in the government-wide statement of net position totaling \$99,090 at June 30, 2018, 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, 2018 is as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	
Primary Government				
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 38,775	\$ -	\$ -	\$ 38,775
Construction In Progress	-	-	-	0
Total Capital Assets Not Being Depreciated	<u>38,775</u>	<u>-</u>	<u>-</u>	<u>38,775</u>
Capital Assets, Being Depreciated:				
Buildings	604,991	-	-	604,991
Equipment	510,143	-	-	510,143
Vehicles	512,277	-	-	512,277
Infrastructure	2,847,791	13,385	-	2,861,176
Total Capital Assets Being Depreciated	<u>4,475,202</u>	<u>13,385</u>	<u>-</u>	<u>4,488,587</u>
Less Accumulated Depreciation For:				
Buildings	(206,149)	(10,187)	-	(216,336)
Equipment	(377,009)	(26,068)	-	(403,077)
Vehicles	(296,244)	(21,128)	-	(317,372)
Infrastructure	(1,991,545)	(51,501)	-	(2,043,046)
Total Accumulated Depreciation	<u>(2,870,947)</u>	<u>(108,884)</u>	<u>-</u>	<u>(2,979,831)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,604,255</u>	<u>(95,499)</u>	<u>-</u>	<u>1,508,756</u>
Governmental Activities Capital, Assets, Net	<u>\$ 1,643,030</u>	<u>\$ (95,499)</u>	<u>\$ -</u>	<u>\$ 1,547,531</u>

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

<u>Governmental Activities:</u>	
General Government	69,554
Protection to Persons and Property	4,250
Public Works including Infrastructure	<u>35,080</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 108,884</u>

Capital asset activity for business-type activities for the year ended June 30, 2018 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	\$ -	\$ -	\$ 47,217
Total Capital Assets Not Being Depreciated	47,217	-	-	47,217
Capital Assets Being Depreciated:				
Plant and Equipment	5,797,381	23,542	(73,041)	5,747,882
Total Capital Assets Being Depreciated	5,797,381	23,542	(73,041)	5,747,882
Less Accumulated Depreciation For:				
Plant and Equipment	(3,042,629)	(147,050)	71,656	(3,118,023)
Total Accumulated Depreciation	(3,042,629)	(147,050)	71,656	(3,118,023)
Total Capital Assets, Being Depreciated, Net	2,754,752	(123,508)	(1,385)	2,629,859
Business-Type Activities Capital Assets, Net	<u>\$ 2,801,969</u>	<u>\$ (123,508)</u>	<u>\$ (1,385)</u>	<u>\$ 2,677,076</u>

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

<u>Business-type Activities:</u>	
Electric System	\$ 35,264
Gas System	8,859
Water & Sewer System	102,927
Total Depreciation Expense-Business-type Activities	<u>\$ 147,050</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, 2018, the balance due was \$1,140. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2019	14,740	539
Totals	\$ 14,740	\$ 539

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, 2018, the balance due was \$116,283. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2019	7,769	4,023
2020	8,266	3,527
2021	8,534	3,258
2022	8,811	2,981
2023-2029	82,903	23,848
Totals	\$ 116,283	\$ 37,637

Note Payable-Citizens Bank-1990 Ford Semo 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, 2018, the balance due was \$33,162, 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
2019	7,762	1,310
2020	8,067	1,003
2021	8,386	685
2022	8,707	353
2023	240	26
Totals	\$ 33,162	\$ 3,377

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, 2018, the balance due was \$25,640. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2019	8,247	776
2020	8,498	525
2021	8,895	128
Totals	\$ 25,640	\$ 1,429

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, 2018 is \$14,951 with one principal and interest payment due October, 2018.

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, 2018 is \$48,138 with one principal and interest payment due November, 2018.

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, 2018 the balance due was \$22,135. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2019	9,828	1,107
2020	10,320	615
2021	1,987	99
Totals	\$ 22,135	\$ 1,821

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, 2018 the balance due was \$77,090. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2019	8,659	3,862
2020	9,129	3,391
2021	9,625	2,896
2022	10,140	2,381
2023-2028	39,537	4,851
Totals	<u>\$ 77,090</u>	<u>\$ 17,381</u>

C. Changes in Long-Term Debt

Long-Term debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Government Activities:</u>					
Note Payable-Citizens Bank	\$ 16,437	\$ -	\$ (1,697)	\$ 14,740	\$ 14,740
Note Payable-Citizens Bank	123,806	-	(7,522)	116,284	7,769
Note Payable-Citizens Bank	40,447	-	(7,285)	33,162	7,762
Note Payable-First KY Bank	33,504	-	(7,864)	25,640	8,247
Note Payable-Citizens Bank	24,433	-	(9,482)	14,951	9,650
Note Payable-First KY Bank	59,465	-	(11,327)	48,138	11,834
Government Activities					
Long-Term Liabilities	<u>\$ 298,092</u>	<u>\$ -</u>	<u>\$ (45,177)</u>	<u>\$ 252,915</u>	<u>\$ 60,002</u>
<u>Business-Type Activities:</u>					
Note Payable-Citizens Bank	31,693	-	(9,558)	22,135	9,828
Note Payable-Citizens Bank	85,045	-	(7,956)	77,089	8,659
Business-Type Activities					
Long-term Liabilities	<u>\$ 116,738</u>	<u>\$ -</u>	<u>\$ (17,514)</u>	<u>\$ 99,224</u>	<u>\$ 18,487</u>

NOTE 6. INTEREST ON LONG-TERM DEBT

Interest on Short-term and Long-term debt on the Statement of Activities includes \$10,940 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, 2018, 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><u>\$872,261</u></u>
--	-------------------------

The net pension liability of the plan 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 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, 2018, the City's proportion was 0.014902%.

For the year ended June 30, 2018, the City's recognized pension expense was \$82,747. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>County Employees Retirement System (CERS)</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,082	\$ 22,142
Change of assumptions	160,956	-
Net differences between projected and actual earnings on pension plan investments	15,389	2,969
Changes in proportion and difference between District contributions and proportionate share of contributions	69,082	58,293
City contributions subsequent to the measurement date	57,918	-
Total	<u><u>\$ 304,427</u></u>	<u><u>\$ 83,404</u></u>

The amount of \$57,918 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

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:

	<u>CERS</u>
Inflation	2.30%
Projected salary increases	3.05%
Investment rate of return, net of investment expense and inflation	6.25%

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 long-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 2017	Target	Long-term
Asset Class	Allocation	Expected Real Rate of Return
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return (diversified hedge funds)	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	

Discount rate -- For CERS, the discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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	5.25%	6.25%	7.25%
The City's proportionate share of net pension liability	\$1,100,108	\$872,260	\$681,666

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

General Information about the OPEB Plan

Plan description: County Employee Retirement System consists of two plans. Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city and any additional eligible local agencies electing to participate in CERS. The City participates in the Non-Hazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The City contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund 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:

Portion Paid by Insurance Fund	
Years of Service	% Paid by Insurance Fund
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, 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 whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

Contributions: The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5%. Employees hired on or after September 1, 2018, contribute an additional 1% to health insurance.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) and 18.68% (13.95% pension fund and 4.73% insurance fund) respectively, of each employee's creditable compensation. The actuarially determined rates set by the City for the fiscal years were a percentage of each employee's creditable compensation. Contributions to the insurance fund from the City was \$18,799 and \$17,161 for the year ended June 30, 2018.

The City has met 100% of the contribution funding requirement for the year ended June 30, 2018. Total current year contributions recognized by the Plan were \$18,799 for the year ended June 30, 2018. The OPEB contribution amount does not include the implicit subsidy reported in the amount of \$3,661.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$299,580 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the Plan's fiscal year end, June 30, 2017, using general accepted actuarial principles. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June, 30, 2018, the City's proportion for the non-hazardous system was 0.014902%.

For the year ended June 30, 2018, the City recognized OPEB expense of 832. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>County Employees Retirement System (CERS)</u>		
Differences between expected and actual experience	\$ -	\$ 833
Net differences between projected and actual earnings on OPEB plan investments	65,186	-
Change of assumptions	-	696
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	14,158
City contributions subsequent to the measurement date	18,799	-
Total	<u>\$ 83,985</u>	<u>\$ 15,687</u>

\$18,799 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2018	\$	8,517
2019		8,517
2020		8,517
2021		8,517
2022		12,056
Thereafter		3,376
Total	\$	<u>49,500</u>

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.05%, average
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 yrs.
Healthcare cost trend rates (post-65)	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 yrs.

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy returned members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back on year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Measurement Period 2017</u> <u>Asset Class</u>	<u>Target</u> <u>Allocation</u>	<u>Long-term Expected Real Rate</u> <u>of Return</u>
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
	<u>100.00%</u>	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56% as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the City's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the City's Board.

Period of projected benefit payments - Current assets, future contributions and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the City's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the City's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate: The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for non-hazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

1%	Current	1%
Decrease	Discount	Increase
4.84%	Rate 5.84%	6.84%
<u>381,200</u>	<u>299,581</u>	<u>231,661</u>

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the 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:

1%	Current	1%
Decrease	Healthcare Cost	Increase
<u>229,794</u>	<u>299,581</u>	<u>390,300</u>

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Payable to the OPEB plan: At June 30, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

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, 2018, interfund transfers consist of the following:

	Transfer In	Transfer Out
Electric Fund	\$ 36,500	\$ 69,550
Gas Fund	\$ 46,400	\$ 61,400
Water / Sewer Funds	\$ 93,500	\$ -
General Fund	\$ 71,550	\$ 117,000

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 15, 2019.

NOTE 14. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

During fiscal year 2018, the City adopted the following accounting pronouncements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2018.
- GASB State No. 85, *Omnibus 2017*, issued March 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017.

Adoption of these statements did not have a significant impact on the City's financial position or results of operations.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, issued on June 2015 aims to improve financial reporting by state and local governments for postemployment benefits other than pensions (other post employment benefits or OPEB). It also improves information provided by the state and local government employers regarding financial support for OPEB that is provided by other entities.

Adoption of this statement had a significant impact on the City's financial position. As a result, the City restated the July 1, 2017 net position in the amount of (\$233,957) as outlined below.

	Beginning Balance	As Restated	GASB 75 Adjustment
Statement of Activities			
New Position, July 1, 2017	<u>\$ 3,721,037</u>	<u>\$ 3,487,080</u>	<u>\$ (233,957)</u>
Statement of revenue, expenses and changes in net position			
Net Poition, July 1, 2017	<u>\$ 2,372,877</u>	<u>\$ 2,274,194</u>	<u>\$ (98,683)</u>

**SUPPLEMENTARY
INFORMATION**

CITY OF BARDWELL
BUDGETARY COMPARISON SCHEDULE
Required Supplementary Information
For The Year Ended June 30, 2018

	GENERAL FUND			
	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 218,650	\$ 218,650	\$ 253,055	\$ 34,405
Licenses and Permits	14,000	14,000	12,910	(1,090)
Intergovernmental Revenues	211,500	211,500	73,106	(138,394)
Charges for Services	3,100	3,100	58,768	55,668
Miscellaneous	18,000	18,000	14,590	(3,410)
Interest	1,000	1,000	2	(998)
Total Revenues	<u>466,250</u>	<u>466,250</u>	<u>412,431</u>	<u>(53,819)</u>
EXPENDITURES				
General government	249,302	249,302	143,967	105,335
Protection to Persons and Property	151,840	151,840	63,562	88,278
Public Works	93,108	93,108	130,994	(37,886)
Debt Service	40,000	40,000	29,649	10,351
Total Expenditures	<u>534,250</u>	<u>534,250</u>	<u>368,172</u>	<u>166,078</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(68,000)</u>	<u>(68,000)</u>	<u>44,259</u>	<u>112,259</u>
OTHER FINANCING SOURCES (USES)				
Transfer To Other Funds	-	-	(117,000)	(117,000)
Transfers From Other Funds	68,000	68,000	71,550	3,550
Total Other Financing Sources (Uses)	<u>68,000</u>	<u>68,000</u>	<u>(45,450)</u>	<u>(113,450)</u>
Net Changes in Fund Balance	-	-	(1,191)	(1,191)
Fund Balance – Beginning	-	-	38,818	38,818
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,627</u>	<u>\$ 37,627</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, 2018

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 reporting 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.

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.014902%	0.014410%	0.014540%	0.014709%
City's proportionate share of the net pension liability	\$ 872,601	\$ 709,400	\$ 625,221	\$ 477,215
City's covered-employee payroll	\$ 399,986	\$ 362,469	\$ 344,304	\$ 337,441
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	218.16%	195.71%	181.59%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	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.

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

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

Last 10 Fiscal Years *

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 57,918	\$ 50,564	\$ 58,753	\$ 59,625
Contributions in relation to the contractually required contributions	<u>(57,918)</u>	<u>(50,564)</u>	<u>58,753</u>	<u>59,625</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 399,986	\$ 362,469	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	0.00%	0.00%

* 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, 2018

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 2018, 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
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
County Employees Retirement System
June 30, 2018

	2018
City's proportion of the net OPEB liability (asset)	0.014902%
City's proportionate share of OPEB liability (asset)	\$ 299,581
City's covered-employee payroll	\$ 399,986
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	74.90%
Plan fiduciary net position as a percentage of the total OPEB liability	53.40%

Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in the fiscal year 2018.

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

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

	2018
Contractually required OPEB contributions	\$ 18,799
Contributions in relation to the contractually required contributions	18,799
Contribution (excess) deficiency	\$ -
City's covered-employee payroll	\$ 399,986
Contributions as a percentage of covered-employee payroll	4.70%

Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in fiscal year 2018.

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

CITY OF BARDWELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
June 30, 2018

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

Changes in assumptions and benefit terms

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

2017

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

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

CITY OF BARDWELL
DETAILED STATEMENT OF EXPENDITURES
SUPPLEMENTARY INFORMATION
GOVERNMENTAL FUND
For The Year Ended June 30, 2018

	General Administrative	Public Work	Public Safety Fire	West Bardwell Fire Dept.	Police	Total Government Activities
Salaries	\$ 24,658	\$ 41,760	\$ 0	\$ 0	\$ 39,965	\$ 106,383
Payroll taxes	1,373	3,194	-	-	3,196	7,763
Retirement	-	8,010	-	-	8,049	16,059
Health & Life insurance	-	-	-	-	-	-
Telephone	1,709	-	608	-	-	2,317
Postage	150	-	-	-	-	150
Professional fees	15,426	-	-	-	-	15,426
Tax bill preparation	1,331	-	-	-	-	1,331
Legal services	6,500	-	-	-	-	6,500
Advertising	481	-	-	-	-	481
Offices supplies & equipment	12,294	-	-	-	-	12,294
Software support	-	-	-	-	-	-
Professional dues	-	-	-	-	-	-
Community projects	5,083	-	-	-	-	5,083
Insurance and bonds	28,566	-	-	-	-	28,566
Travel and training	8,443	-	48	-	-	8,491
Building maintenance	209	-	-	-	-	209
Miscellaneous	37,744	885	-	-	-	38,629
City clean up / Trash service	-	56,819	-	-	-	56,819
Uniforms	-	-	456	-	294	750
Fuel	-	3,595	-	-	1,512	5,107
Equipment & vehicle maint.	-	4,324	3,919	-	1,173	9,416
Education	-	-	-	-	-	-
Supplies	-	12,407	4,342	3,016	-	19,765
Capital expenditures	-	-	-	-	-	-
Street maintenance	-	-	-	-	-	-
Contract Labor	-	-	-	-	-	-
Total Expenses	<u>143,967</u>	<u>130,994</u>	<u>9,373</u>	<u>3,016</u>	<u>54,189</u>	<u>341,539</u>
Debt service	23,806	-	5,843	26,595	-	56,244
Total Expenses and Transfers	<u>\$ 167,773</u>	<u>\$ 130,994</u>	<u>\$ 15,216</u>	<u>\$ 29,611</u>	<u>\$ 54,189</u>	<u>\$ 397,783</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, 2018, 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 15, 2019.

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
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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. [2018-1 and 2018-2]

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 15, 2019

CITY OF BARDWELL, KENTUCKY
SCHEDULE OF FINDING(S)
For the Year Ended June 30, 2018

FINDING(S) - FINANCIAL STATEMENT AUDIT

2018-1 - 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.

2018-2 - 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.