

CITY OF BURKESVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

**CITY OF BURKESVILLE, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2017**

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CITY OF BURKESVILLE
P.O. BOX 250
BURKESVILLE, KENTUCKY
(270) 864-4141

CITY OFFICIALS AND OFFICERS

MAYOR

Keith Riddle

MEMBERS OF COUNCIL

~~Bernice Boston~~ Glen Murphy
Billy Guffey
~~Michelle Bell~~ Terry Murphy
Billy Maxey
Lana Owens
Odis Young

OFFICERS

Brenda Spears
City Clerk/Treasurer

Angie Capps
City Attorney

Bradford Purdue
Chief of Police

Weldon Rowe
Fire Chief

Hoy Spears
Public Works Director

Ed Peretto
Water/Wastewater Director

SAMMY K. LEE, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Burkesville
Burkesville, Kentucky 42717

Report on the Financial Statements

I 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 Burkesville (hereinafter called "the City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis 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. My opinion on the basic financial statements are not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension schedules on pages 31–35 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements as a whole. The schedule of water and sewer revenues, expenses, and changes in net position on page 36, are presented for purposes of additional analysis as required by the *USDA* and is not a required part of the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 19, 2017, on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sammy K. Lee, P.S.C.

Berea, Kentucky
October 19, 2017

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 403,727	\$ 273,044	\$ 676,771
Certificates of deposit	329,842	202,296	532,138
Receivables, net			
Customers	-	131,838	131,838
Other	4,004	-	4,004
Interest	-	1,287	1,287
Prepaid expenses	7,228	743	7,971
Total Current Assets	<u>744,801</u>	<u>609,208</u>	<u>1,354,009</u>
Non-Current Assets			
Restricted cash	36,829	585,760	622,589
Capital assets:			
Non-depreciable	130,319	61,445	191,764
Depreciable, net	289,649	9,602,238	9,891,887
Total Non-Current Assets	<u>456,797</u>	<u>10,249,443</u>	<u>10,706,240</u>
Total Assets	<u>1,201,598</u>	<u>10,858,651</u>	<u>12,060,249</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	372,613	176,958	549,571
Liabilities			
Current Liabilities			
Accounts payable	8,912	16,981	25,893
Accrued expenses	33,630	19,942	53,572
Accrued interest	-	18,661	18,661
Customer deposits payable	-	47,387	47,387
Revenue bonds payable	-	62,800	62,800
Notes payable	-	122,654	122,654
Total Current Liabilities	<u>42,542</u>	<u>288,425</u>	<u>330,967</u>
Non-Current Liabilities			
Revenue bonds payable	-	965,600	965,600
Notes payable	-	2,009,056	2,009,056
Net pension liability	1,272,060	625,365	1,897,425
Total Non-Current Liabilities	<u>1,272,060</u>	<u>3,600,021</u>	<u>4,872,081</u>
Total Liabilities	<u>1,314,602</u>	<u>3,888,446</u>	<u>5,203,048</u>
Net Position			
Net investment in capital assets	419,968	6,503,573	6,923,541
Restricted	36,829	585,760	622,589
Unrestricted	(197,188)	57,830	(139,358)
Total Net Position	<u>\$ 259,609</u>	<u>\$ 7,147,163</u>	<u>\$ 7,406,772</u>

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	
Government Activities					
General government	\$ 126,270	\$ -	\$ -	\$ -	\$ (126,270)
Police	822,614	-	-	-	(822,614)
Fire	63,835	-	-	-	(63,835)
Street	233,723	-	-	-	(233,723)
Parks & recreation	109,877	-	-	-	(109,877)
Total Governmental Activities	1,356,319	-	-	-	(1,356,319)
Business-Type Activities					
Water and Sewer	1,198,565	937,380	-	-	(261,185)
Sanitation	266,045	228,156	-	-	(37,889)
Total Business-Type Activities	1,464,610	1,165,536	-	-	(299,074)
Total Activities	\$ 2,820,929	\$ 1,165,536	\$ -	\$ -	\$ (1,655,393)

	Governmental Activities	Business-Type Activities	Total
Change in Net Position			
Net (expense) revenue	\$ (1,356,319)	\$ (299,074)	\$ (1,655,393)
General Revenues			
Taxes	103,068	-	103,068
Licenses, permits, and other taxes	936,556	-	936,556
Intergovernmental	293,556	-	293,556
Services and fees	36,267	-	36,267
Interest income	3,739	3,625	7,364
Gain on sale or disposition of capital assets	-	21,607	21,607
Miscellaneous	15,150	18,752	33,902
Total General Revenues	1,388,336	43,984	1,432,320
Change in Net Position	32,017	(255,090)	(223,073)
Net Position, Beginning	227,592	7,402,253	7,629,845
Net Position, Ending	\$ 259,609	\$ 7,147,163	\$ 7,406,772

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

CITY OF BURKESVILLE, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 403,727	\$ -	\$ 403,727
Certificates of deposit	329,842	-	329,842
Accounts receivable			
Customers	-	-	-
Other	4,004	-	4,004
Interest receivable	-	-	-
Prepaid expenses	7,228	-	7,228
Restricted cash	-	36,829	36,829
Total Assets	<u>\$ 744,801</u>	<u>\$ 36,829</u>	<u>\$ 781,630</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 8,912	\$ -	\$ 8,912
Accrued expenses	33,630	-	33,630
Total Liabilities	<u>42,542</u>	<u>-</u>	<u>42,542</u>
Fund Balances			
Non-spendable	7,228	-	7,228
Restricted	-	36,829	36,829
Unassigned	695,031	-	695,031
Total Fund Balances	<u>702,259</u>	<u>36,829</u>	<u>739,088</u>
Total Liabilities and Fund Balances	<u>\$ 744,801</u>	<u>\$ 36,829</u>	<u>\$ 781,630</u>

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Fund balances reported above	\$ 739,088
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	419,968
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	372,613
All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long term liabilities are not due and payable are not due and payable in the current period and therefore are not reported	
Net pension liability	<u>(1,272,060)</u>
Net Position of Governmental Activities	<u>\$ 259,609</u>

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 103,068	\$ -	\$ 103,068
Licenses, permits and fees	936,556	-	936,556
Intergovernmental	258,268	35,288	293,556
Service charges and fees	36,267	-	36,267
Other	18,841	48	18,889
Total Revenues	1,353,000	35,336	1,388,336
Expenditures			
General and administration department	113,930	-	113,930
Police department	717,285	-	717,285
Fire department	51,799	-	51,799
Street department	208,826	32,437	241,263
Park and recreation department	96,747	-	96,747
Total Expenditures	1,188,587	32,437	1,221,024
Net Change in Fund Balance	164,413	2,899	167,312
Fund Balance, Beginning	537,846	33,930	571,776
Fund Balance, Ending	\$ 702,259	\$ 36,829	\$ 739,088

Net changes in fund balances - total governmental funds **\$ 167,312**

Amounts reported for *government 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 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$56,379 exceeds capital outlay of \$49,254 in the current period. (7,125)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension liability of governmental activities (128,170)

Change in net position of governmental activities **\$ 32,017**

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Water & Sewer Utilities</u>	<u>Sanitation Utilities</u>	<u>Total Enterprise Fund</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 187,075	\$ 85,969	\$ 273,044
Certificates of deposit	154,400	47,896	202,296
Receivables, net			
Customers	105,977	25,861	131,838
Interest	952	335	1,287
Prepaid expenses	527	216	743
Total Current Assets	448,931	160,277	609,208
Non-Current Assets			
Restricted cash	585,760	-	585,760
Capital assets:			
Non-depreciable	61,445	-	61,445
Depreciable, net	9,383,376	218,862	9,602,238
Total Non-Current Assets	10,030,581	218,862	10,249,443
Total Assets	10,479,512	379,139	10,858,651
Deferred Outflows of Resources			
Deferred amounts related to pensions	137,696	39,262	176,958
Liabilities			
Current Liabilities			
Accounts payable	9,362	7,619	16,981
Accrued expenses	16,153	3,789	19,942
Accrued interest	18,387	274	18,661
Customer deposits payable	47,387	-	47,387
Revenue bonds payable	62,800	-	62,800
Notes payable	106,477	19,942	126,419
Total Current Liabilities	260,566	31,624	292,190
Non-Current Liabilities			
Revenue bonds payable	965,600	-	965,600
Notes payable	1,934,327	74,729	2,009,056
Net pension liability	486,395	138,970	625,365
Total Non-Current Liabilities	3,386,322	213,699	3,600,021
Total Liabilities	3,646,888	245,323	3,892,211
Net Position			
Net investment in capital assets	6,378,617	124,956	6,503,573
Restricted	585,760	-	585,760
Unrestricted	8,943	48,887	57,830
Total Net Position	\$ 6,973,320	\$ 173,843	\$ 7,147,163

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water and Sewer Utilities	Sanitation Utilities	Total Enterprise Fund
Operating Revenues			
Charges for services	\$ 937,380	\$ 228,156	\$ 1,165,536
Miscellaneous	18,752	-	18,752
Total Operating Revenues	956,132	228,156	1,184,288
Operating Expenses			
Salaries	255,064	71,451	326,515
Employee benefits	147,077	38,796	185,873
Contractual services	8,528	3,905	12,433
Materials and supplies	164,226	96,629	260,855
Travel and training	1,434	17	1,451
Utilities and telephone	126,304	2,896	129,200
Insurance	44,020	16,075	60,095
Depreciation	353,375	25,816	379,191
Bad debt provision	4,674	1,141	5,815
Miscellaneous	11,104	4,613	15,717
Rent	6,500	3,250	9,750
Total Operating Expenses	1,122,306	264,589	1,386,895
Operating Loss	(166,174)	(36,433)	(202,607)
Non-Operating Revenues (Expenses)			
Interest income	3,114	511	3,625
Interest expense	(76,259)	(1,456)	(77,715)
Gain on disposal	-	21,607	21,607
Total Non-Operating Revenue (Expenses)	(73,145)	20,662	(52,483)
Change in Net Position	(239,319)	(15,771)	(255,090)
Total Net Position, Beginning	7,212,639	189,614	7,402,253
Total Net Position, Ending	\$ 6,973,320	\$ 173,843	\$ 7,147,163

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water & Sewer Utilities	Sanitation Utilities	Total Enterprise Fund
Cash Flows from Operating Activities			
Cash received from customers	\$ 940,934	\$ 229,832	\$ 1,170,766
Cash received from other sources	18,752	-	18,752
Cash payments to suppliers for goods and services	(495,816)	(165,183)	(660,999)
Cash payments to employees	(250,947)	(70,658)	(321,605)
Net Cash Provided (Used) by Operating Activities	212,923	(6,009)	206,914
Cash Flows from Capital and Related Financing Activities			
Loan proceeds	100,679	-	100,679
Principal and interest paid on long-term debt	(233,209)	(7,276)	(240,485)
Acquisition and construction of capital assets	(92,202)	(37,710)	(129,912)
Net Cash Used by Capital and Related Financing Activities	(224,732)	(44,986)	(269,718)
Cash Flows from Investing Activities			
Proceeds from the sale of an asset	-	15,000	15,000
Redemption of certificate of deposit	-	39,669	39,669
Cash received from interest income	2,523	476	2,999
Net Cash Provided by Investing Activities	2,523	55,145	57,668
Net (Decrease) Increase in Cash and Cash Equivalents	(9,286)	4,150	(5,136)
Cash and Cash Equivalents at July 1, 2016	782,141	81,819	863,960
Cash and Cash Equivalents at June 30, 2017	\$ 772,855	\$ 85,969	\$ 858,824
⁽¹⁾ Cash and cash equivalents are reflected in the Statement of Net Position as follows:			
Cash and cash equivalents	\$ 187,095	\$ 85,969	\$ 273,064
Restricted cash and cash equivalents	585,760	-	585,760
Subtotal	\$ 772,855	\$ 85,969	\$ 858,824
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating Loss	\$ (166,174)	\$ (36,433)	\$ (202,607)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	353,375	25,816	379,191
Bad debt provision	4,674	1,141	5,815
Gain on disposal	-	6,607	6,607
Changes in assets and liabilities:			
(Increase) decrease in customer accounts receivable	(3,554)	(1,676)	(5,230)
Increase (decrease) in accounts payable	(6,730)	(6,968)	(13,698)
Increase (decrease) in accrued expenses	4,117	793	4,910
Increase (decrease) in customer deposits	45	-	45
Increase (decrease) in net pension liability	65,817	14,708	80,525
Deferred outflows related to pension	(38,647)	(9,997)	(48,644)
Total adjustments	379,097	30,424	409,521
Net Cash Provided (Used) by Operating Activities	\$ 212,923	\$ (6,009)	\$ 206,914

Noncash capital financing activities: The Sanitization department used loan proceeds in the amount of \$100,000 to purchase capital asset.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Burkesville, Kentucky (hereinafter "the City") operates under a Mayor-Council form of government. The City's major operations include police and fire protection, parks and recreation, and general administrative services. The City also operates a water, sewer and sanitation system for its citizens. The citizens of Burkesville elect a mayor-at-large and six city council members. The accompanying financial statements present the City's primary government unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from a legal relationship).

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- *Statement of Net Position* presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.
- *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the General Fund. Charges are allocated as reimbursement for services provided by the General Fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- *General Fund* is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- *Special Revenue Funds* consists of accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Measurement Focus and Basis of Accounting

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

The government-wide financial statements and the proprietary funds financial statements are presented on a *full accrual* basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and investment income.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 principle ongoing operations. The principle operating revenues of the City's Water, Sewer, and Sanitation Funds are charges to customers for sales and services. The Water, Sewer, and Sanitation Funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2017, the original budget was approved in May 2016 and amended May 2017. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposits

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

The City has restricted cash and or certificates of deposits to satisfy bond issue requirements, including cash restricted for bond payments.

Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local and federal governments. Interest revenue receivable in all funds consist of revenue due on each certificate of deposit. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Property Tax Calendar

Property taxes for fiscal year 2017 were levied in November 2016, respectively, on the assessed property located in the City of Burkesville as of the preceding January 1. The rate for real estate was 11 cents per one hundred dollars of assessed value. The rate for auto and boats was 23 cents and other tangible property was 26 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|---|------------------------------|
| 1. Due date for payment of taxes, 2% discount | November 30 |
| 2. Face value payment period | December 1 to December 31 |
| 3. Past due date, 10% penalty | January 1 |
| 4. Interest charge | 12% per annum from January 1 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Cumberland County and are due and collected in the birth month of the licensee.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and certificates of deposit on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the Fund Financial Statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 until then. The City has one item that meets this criterion, as related to pensions reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension liability and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. In addition to liabilities, the Statement of Financial Position 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 only one item that meet the criterion for this category as related to pensions reported in the Statement of Net Position.

Pensions

The City participates in a cost-sharing multiple-employer plan to provide pension benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension liability. For the purposes of measuring the net pension liability, deferred outflows or inflows of resources related to pension, and pension expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed – Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.

Assigned – Portion of fund balance that has been budgeted by the City Council.

Unassigned – Portion of fund balance that has not been restricted, committed or assigned for specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the Enterprise Funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

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

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2017 consisted of the following:

<u>Account</u>	<u>Interest Bearing</u>	<u>Governmental</u>	<u>Water & Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating	Yes	\$ 387,428	\$ 187,075	\$ 85,969	\$ 660,472
LGEAF	Yes	5,474	-	-	5,474
MAF	Yes	31,355	-	-	31,355
Payroll	Yes	16,299	-	-	16,299
1980 Sinking Fund	Yes	-	23,408	-	23,408
1989 Sinking Fund	Yes	-	144,686	-	144,686
1997 Depreciation Fund	Yes	-	100,046	-	100,046
2010 Depreciation Fund	Yes	-	32,110	-	32,110
2010 Sinking Fund	Yes	-	17,683	-	17,683
2011 Sinking Fund	Yes	-	131,130	-	131,130
2011 Depreciation Fund	Yes	-	48,692	-	48,692
2015 Sinking Fund	Yes	-	82,601	-	82,601
2015 Depreciation Fund	Yes	-	5,404	-	5,404
Total		\$ 440,556	\$ 772,835	\$ 85,969	\$ 1,299,360

Certificates of deposit at June 30, 2017 consisted of the following:

<u>Account</u>	<u>Interest Bearing</u>	<u>Governmental</u>	<u>Water & Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Certificates of deposit	Yes	\$ 329,842	\$ 154,400	\$ 47,896	\$ 532,138
Total		\$ 329,842	\$ 154,400	\$ 47,896	\$ 532,138

Credit Risk

Under Kentucky Revised statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. As of June 30, 2017, none of the City's deposits were subject to credit risk.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the deposits that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits and certificates of deposit totaled \$1,719,173 and the bank balances totaled \$1,889,220. At June 30, 2017, \$1,244,571 of collateral was pledged to the City by the custodial bank and \$531,355 by FDIC insurance.

NOTE 3 – RECEIVABLES

Receivables as of fiscal year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

	<u>General</u>	<u>Water & Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Accounts receivables				
Customers	\$ -	\$ 154,175	\$ 37,479	\$ 191,654
Other	4,004	-	-	4,004
Interest	-	952	335	1,287
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	4,004	155,127	37,814	196,945
Less allowance for bad debt	-	48,198	11,618	59,816
	<hr/>	<hr/>	<hr/>	<hr/>
Net total receivables	<u>\$ 4,004</u>	<u>\$ 106,929</u>	<u>\$ 26,196</u>	<u>\$ 137,129</u>

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. There were no fund transfers for the year ended June 30, 2017.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

	Beginning Balance 7/1/2016	Increases	Decreases	Ending Balance 6/30/2017
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 130,319	\$ -	\$ -	\$ 130,319
Total capital assets, not being depreciated:	<u>130,319</u>	<u>-</u>	<u>-</u>	<u>130,319</u>
Capital assets, being depreciated:				
Buildings	309,372	-	-	309,372
Machinery and equipment	852,548	4,740	-	857,288
Furniture and fixtures	59,788	-	-	59,788
Improvements	853,337	44,514	-	897,851
Road equipment	95,320	-	-	95,320
Total capital assets, being depreciated:	<u>2,170,365</u>	<u>49,254</u>	<u>-</u>	<u>2,219,619</u>
Less accumulated depreciation for Governmental Activities				
Building	290,649	1,442	-	292,091
Machinery and equipment	772,717	24,452	-	797,169
Furniture and fixtures	59,788	1,261	-	61,049
Improvements	662,450	27,891	-	690,341
Road equipment	87,987	1,333	-	89,320
Total accumulated depreciation	<u>1,873,591</u>	<u>56,379</u>	<u>-</u>	<u>1,929,970</u>
Total capital assets, being depreciated, net	<u>296,774</u>			<u>289,649</u>
Government activities capital assets, net	<u>\$ 427,093</u>			<u>\$ 419,968</u>

Depreciation expense for Governmental activities is charged to functions as follows:

	<u>2017</u>
Police	\$ 13,772
Street	21,840
Fire	12,721
Park	4,146
General	2,567
MAF Fund	1,333
Total	<u>\$ 56,379</u>

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance 7/1/2016	Increases	Decreases	Ending Balance 6/30/2017
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 61,445	\$ -	\$ -	\$ 61,445
Construction in process	520,644	76,105	596,749	-
Total capital assets, not being depreciated:	582,089	76,105	596,749	61,445
Capital assets, being depreciated:				
Buildings & Improvements	38,254	-	-	38,254
Machinery & Equipment	338,726	16,097	-	354,823
Sanitary Sewer Extension	159,108	-	-	159,108
Utility Plant	10,708,950	-	-	10,708,950
Waste Water Treatment Facility	3,527,976	596,749	-	4,124,725
Sanitation Equipment	233,597	137,700	92,940	278,357
Total capital assets, being depreciated:	15,006,611	750,546	92,940	15,664,217
Less accumulated depreciation for				
Business-Type Activities				
Buildings & Improvements	32,323	1,492	-	33,815
Machinery & Equipment	290,826	11,478	-	302,304
Sanitary Sewer Extension	158,722	44,878	-	203,600
Utility Plant	2,337,210	195,925	-	2,533,135
Waste Water Treatment Facility	2,830,018	99,602	-	2,929,620
Sanitation Equipment	127,069	25,816	93,380	59,505
Total accumulated depreciation	5,776,168	379,191	93,380	6,061,979
Total capital assets, being depreciated, net	9,230,443			9,602,238
Business-Type activities capital assets, net	\$ 9,812,532			\$ 9,663,683

Depreciation expense for Business-Type activities is charged to functions as follows:

	2017
Water	\$ 282,700
Sewer	70,675
Sanitation	25,816
Total	\$ 379,191

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Governmental-type					
Net Pension Liability	\$ 1,016,417	\$ (255,643)	\$ -	\$ 1,272,060	\$ -
Business-type					
Revenue Bonds	1,089,000	-	60,600	1,028,400	62,800
Notes Payable	2,032,777	200,679	101,746	2,131,710	122,654
Net Pension Liability	544,840	80,525	-	625,365	-
Total	\$ 4,683,034	\$ 536,847	\$ 162,346	\$ 5,057,535	\$ 185,454

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was \$1,933,000. No general obligation bonds were issued during the current year. Revenue bonds are pledged by revenues and by the full faith and credit of the government. These bonds are issued as 10 to 40 year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 4.5% to 5.0%. The debt reserve requirement was in compliance for the fiscal year.

The following is a description of the City's bonds outstanding as of June 30, 2017:

<u>Issue</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Retired in 2017</u>	<u>Bonds Outstanding 6/30/2017</u>
01-334802	5.0%	8/1/1980	3/1/2019	\$ 255,000	\$ 13,000	\$ 29,000
91 - 03	5.0%	1/9/1990	3/1/2028	387,000	13,000	189,000
92 - 05	5.0%	7/15/1992	3/1/2032	1,091,000	30,000	671,000
91 - 07	4.5%	1/13/1998	3/1/2036	200,000	4,600	139,400
Total				\$ 1,933,000	\$ 60,600	\$ 1,028,400

The following are the principal and interest maturities for the bonds outstanding as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2018	\$ 62,800	\$ 50,723	\$ 113,523
2019	67,000	47,607	114,607
2020	54,300	44,282	98,582
2021	57,500	41,594	99,094
2022	59,700	38,746	98,446
2023-2027	346,800	146,123	492,923
2028-2032	340,900	58,645	399,545
2033-2036	39,400	4,505	43,905
Total	\$ 1,028,400	\$ 432,225	\$ 1,460,625

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2017 for the payment of bond principal and interest are as follows for the 1980 bond:

Fiscal Year	Annual Requirements of Principal	Interest	Total Annual Requirements
2018	14,000	1,450	15,450
2019	15,000	750	15,750
Total	\$ 29,000	\$ 4,300	\$ 46,300

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2017 for the payment of bond principal and interest are as follows for the 1990 bond:

Fiscal Year	Annual Requirements of Principal	Interest	Total Annual Requirements
2018	13,000	9,450	22,450
2019	14,000	8,800	22,800
2020	15,000	8,100	23,100
2021	16,000	7,350	23,350
2022	16,000	6,550	22,550
2023	17,000	5,750	22,750
2024	18,000	4,900	22,900
2025	19,000	4,000	23,000
2026	20,000	3,050	23,050
2027	20,000	2,050	22,050
2028	21,000	1,050	22,050
Total	\$ 189,000	\$ 71,150	\$ 273,150

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2017 for the payment of bond principal and interest are as follows for the 1992 bond:

Fiscal Year	Annual Requirements of Principal	Interest	Total Annual Requirements
2018	31,000	33,550	64,550
2019	33,000	32,000	65,000
2020	34,000	30,350	64,350
2021	36,000	28,650	64,650
2022	38,000	26,850	64,850
2023	40,000	24,950	64,950
2024	42,000	22,950	64,950
2025	44,000	20,850	64,850
2026	46,000	18,650	64,650
2027	48,000	16,350	64,350
2028	51,000	13,950	64,950
2029	53,000	11,400	64,400
2030	56,000	8,750	64,750
2031	59,000	5,950	64,950
2032	60,000	3,000	63,000
Total	\$ 671,000	\$ 333,250	\$ 1,034,250

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2017 for the payment of bond principal and interest are as follows for the 1998 bond:

<u>Fiscal Year</u>	<u>Annual Requirements of Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2018	4,800	6,273	11,073
2019	5,000	6,057	11,057
2020	5,300	5,832	11,132
2021	5,500	5,594	11,094
2022	5,700	5,346	11,046
2023	6,000	5,090	11,090
2024	6,300	4,820	11,120
2025	6,500	4,536	11,036
2026	6,900	4,244	11,144
2027	7,100	3,933	11,033
2028	7,500	3,614	11,114
2029	7,800	3,276	11,076
2030	8,200	2,925	11,125
2031	8,500	2,556	11,056
2032	8,900	2,174	11,074
2033	9,300	1,773	11,073
2034	9,700	1,355	11,055
2035	10,200	918	11,118
2036	10,200	459	10,659
Total	<u>\$ 139,400</u>	<u>\$ 77,255</u>	<u>\$ 221,255</u>

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable

On September 3, 2009, the City of Burkesville entered into a loan assistance agreement of \$1,153,000, with Kentucky Infrastructure City for a repair of the main street water line. As of June 30, 2017, the City had a balance of \$369,447 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2030. The loan calls for a \$30,000 repairs and maintenance reserve.

On May 1, 2013, the City of Burkesville entered into a loan assistance agreement of \$1,000,000, with Kentucky Infrastructure Authority for a sanitary sewer system overflow. As of June 30, 2017, the City had a balance of \$619,944 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2034. The loan calls for a \$25,000 repairs and maintenance reserve.

On June 1, 2013, the City of Burkesville entered into a loan assistance agreement of \$500,000, with Kentucky Infrastructure Authority for a sanitary sewer system overflow. As of June 30, 2017, the City had a balance of \$441,517 on the loan. The note bears interest at a rate of .75% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2034. The loan calls for a \$13,000 repairs and maintenance reserve.

On January 1, 2016, the City of Burkesville entered into a loan assistance agreement of \$520,644, with Kentucky Infrastructure City for a water distribution extension project. As of June 30, 2017, the City had a balance of \$606,896 on the loan. The note bears interest at a rate of .75% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2035. The loan calls for a \$30,000 repairs and maintenance reserve.

The minimum obligations of the City's at June 30, 2017 for the payment of loan principal and interest are as follows:

Year Ending June 30,	Principal	Interest	Total Annual Requirements
2018	\$ 106,477	\$ 16,602	\$ 123,079
2019	107,423	15,656	123,079
2020	108,378	14,701	123,079
2021	109,341	13,738	123,079
2022	110,314	12,765	123,079
2023-2027	566,380	49,015	615,395
2028-2032	547,928	23,481	600,733
2033-2036	270,998	5,513	370,266
Total	\$ 1,927,239	\$ 151,471	\$ 2,201,789

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 6 – LONG-TERM DEBT – CONTINUED

COMPLIANCE WITH RESERVE REQUIREMENTS

The City of Burkesville is required to maintain the following funds and accounts related to the bond issuance and loan agreement with Kentucky Infrastructure Authority (KIA).

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. One twelfth (1/12) of five percent (5%) of the annual gross income and revenue of the public water and sewer project of the previous fiscal year, should be deposited into the Depreciation Fund. The KIA loans calls for the creation of a repairs and maintenance reserve of \$98,000. At June 30, 2017, the depreciation fund had a balance of \$186,254.

Debt Service Fund – The debt service fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. These monthly transfers are to be made until the balance reaches the lesser of 1) the maximum debt service requirement in any fiscal year, 2) 10% of the proceeds of any series bonds or 3) 125% of the average annual debt service requirement. As of June 30, 2017, the debt service funds had a balance of \$399,466.

NOTE 7 – RETIREMENT PLAN

The City of Burkesville is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% (non-hazardous) and 31.06% (hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 7 – RETIREMENT PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contribution are received, an employer pay credit is deposited to the members account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits – 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 years 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 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 of 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.

For the fiscal year ended June 30, 2017 the City's covered payroll for hazardous and non-hazardous positions was \$229,719 and \$560,332, respectively.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 7 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2017, the City reported a liability of \$1,897,425 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .043 percent for hazardous and .024 percent for non-hazardous.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 15,719	\$ -
Changes of assumptions	103,776	-
Net difference between projected and actual earnings on plan investments	171,242	-
Changes in proportion and differences between City contributions and proportionate share of contributions	82,813	-
City contributions subsequent to the measurement date	176,021	-
Total	\$ 549,571	\$ -

The \$176,021 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2018	\$ 65,128
2019	\$ 44,005
2020	\$ 42,245
2021	\$ 24,643

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 7 – RETIREMENT PLAN – CONTINUED

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date	June 30, 2016
Experience study	July 1, 2008-June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27
Asset valuation method	5-year smooth 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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate or return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, 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 nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	Long-Term Nominal Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2017

NOTE 7 – RETIREMENT PLAN – CONTINUED

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the new pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>Discount Rate</u>	<u>City's proportionate share of net pension liability</u>
1% Decrease	6.50%	\$ 2,371,997
Current discount rate	7.50%	\$ 1,897,425
1% Increase	8.50%	\$ 1,496,770

Payable to the Pension Plan – At June 30, 2017, the City reported no outstanding liability amount to the pension plan.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The City receives funding from federal, state, and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of grants advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program. As of June 30, 2017 there were no pending litigation, un-asserted claims nor assessments against the City.

NOTE 9 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2017, the City was sufficiently insured.

NOTE 10 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through October 19, 2017, which is the date the financial statements were available to be issued.

**CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Taxes	\$ 91,000	\$ 91,000	\$ 103,068	\$ 12,068
Licenses, permits and fees	951,604	951,604	936,556	(15,048)
Intergovernmental	233,500	233,500	258,268	24,768
Service charges and fees	44,200	44,200	36,267	(7,933)
Other	-	-	18,841	18,841
Total Revenues	1,320,304	1,320,304	1,353,000	32,696
Expenditures				
General and administrative	116,830	121,330	113,930	7,400
Police	723,331	814,681	717,285	97,396
Fire	66,130	140,125	51,799	88,326
Street	221,150	221,150	208,826	12,324
Parks and recreation	179,613	179,613	96,747	82,866
Total Expenditures	1,307,054	1,476,899	1,188,587	288,312
Net Change in Fund Balance	13,250	(156,595)	164,413	321,008
Fund Balance, Beginning	470,959	436,892	537,846	453,571
Fund Balance, Ending	\$ 484,209	\$ 280,297	\$ 702,259	\$ 774,579

CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget
Expenditures				
General & Administration:				
Salaries	\$ 53,500	\$ 53,500	\$ 52,884	\$ 616
Employee benefits	27,400	27,400	26,878	522
Professional services	2,250	2,250	1,993	257
Materials and supplies	4,180	4,180	1,389	2,791
Insurance	4,500	4,500	4,688	(188)
Miscellaneous	5,700	10,200	7,145	3,055
Travel and training	1,500	1,500	1,464	36
Utilities	3,700	3,700	1,562	2,138
Telephone	4,600	4,600	2,268	2,332
Community development	6,000	6,000	5,998	2
PVA	3,500	3,500	3,607	(107)
Capital outlay	-	-	4,054	(4,054)
Total General & Administration	\$ 116,830	\$ 121,330	\$ 113,930	\$ 7,400
Police Department:				
Salaries and dispatch	\$ 438,500	\$ 450,500	\$ 445,082	\$ 5,418
Employee benefits	219,361	219,361	200,132	19,229
Materials, uniforms, and supplies	18,350	14,650	27,882	(13,232)
Insurance	23,870	23,870	26,383	(2,513)
Professional services	2,250	2,250	5,300	(3,050)
Miscellaneous	10,600	93,650	7,746	85,904
Travel and training	4,500	4,500	772	3,728
Utilities	3,700	3,700	1,614	2,086
Telephone	2,200	2,200	2,374	(174)
Total Police Department	\$ 723,331	\$ 814,681	\$ 717,285	\$ 97,396
Fire Department				
Salaries	\$ 15,500	\$ 15,500	\$ 15,222	\$ 278
Employee benefits	5,800	5,800	4,404	1,396
Materials and supplies	15,950	15,950	9,951	5,999
Insurance	15,055	76,200	12,705	63,495
Professional services	2,250	2,250	1,993	257
Miscellaneous	2,975	15,825	421	15,404
Travel and training	250	250	103	147
Utilities	6,500	6,500	4,453	2,047
Telephone	1,850	1,850	1,862	(12)
Capital Outlay	-	-	685	(685)
Total Fire Department	\$ 66,130	\$ 140,125	\$ 51,799	\$ 88,326

**CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Street Department				
Salaries	\$ 74,900	\$ 74,900	\$ 52,628	\$ 22,272
Employee benefits	37,950	37,950	42,548	(4,598)
Material, uniforms, and supplies	42,050	42,050	26,120	15,930
Insurance	4,900	4,900	7,620	(2,720)
Professional services	1,950	1,950	2,493	(543)
Miscellaneous	1,650	1,650	4,792	(3,142)
Travel and training	250	250	35	215
Utilities	57,000	57,000	50,331	6,669
Telephone	500	500	419	81
Capital outlay	-	-	21,840	(21,840)
Total Street Department	\$ 221,150	\$ 221,150	\$ 208,826	\$ 12,324
Parks and Recreation				
Salaries	\$ 31,500	\$ 31,500	\$ 34,107	\$ (2,607)
Employee benefits	17,870	17,870	25,411	(7,541)
Materials and supplies	12,950	12,950	13,617	(667)
Insurance	6,600	6,600	7,137	(537)
Professional services	2,350	2,350	2,046	304
Miscellaneous	102,407	102,407	4,550	97,857
Travel and training	50	50	43	7
Utilities	11,500	11,500	8,436	3,064
Southern KY classic	13,836	13,836	10,344	3,492
Capital outlay	-	-	(8,944)	8,944
Total Parks and Recreation	\$ 199,063	\$ 199,063	\$ 96,747	\$ 93,372

Notes to the Required Supplementary Information:

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.

The budgeted amounts include any amendments made.

Appropriations lapse at year end unless specifically carried over.

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Three Fiscal Years**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>HAZARDOUS</u>			
Contractually required contribution	\$ 69,212	\$ 73,809	\$ 71,351
Contributions in relation to the contractually required contribution	<u>(69,212)</u>	<u>(73,809)</u>	<u>(71,351)</u>
Contribution deficiency (excess)	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
City's covered-employee payroll	\$ 201,724	\$ 224,004	\$ 229,719
Contributions as a percentage of covered-employee payroll	34.31%	32.95%	31.06%
<u>NON-HAZARDOUS</u>			
Contractually required contribution	\$ 91,654	\$ 95,422	\$ 104,670
Contributions in relation to the contractually required contribution	<u>(91,654)</u>	<u>(95,422)</u>	<u>(104,670)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 518,698	\$ 561,095	\$ 560,332
Contributions as a percentage of covered-employee payroll	17.67%	17.01%	18.68%

Notes to Required Supplementary Information:

Valuation dates. Actuarially determined contribution rates are calculated as of July 1st preceding the the fiscal year end in which the contributions are reported.

Changes in benefit terms. There were no benefit changes reported in the June 30, 2016 actuarial report.

Changes in assumptions. There were changes in assumptions and methods reported in the June 30, 2016 actuarial report.

CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF WATER AND SEWER REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Water Utilities	Sewer Utilities	Total
Operating Revenues			
Charges for services	\$ 636,382	\$ 300,998	\$ 937,380
Miscellaneous	18,752	-	18,752
Total Operating Revenues	655,134	300,998	956,132
Operating Expenses			
Salaries	197,224	57,840	255,064
Employee benefits	109,015	38,062	147,077
Contractual services	4,228	4,300	8,528
Materials and supplies	93,821	70,405	164,226
Travel and training	1,434	-	1,434
Utilities and telephone	53,384	72,920	126,304
Insurance	25,130	18,890	44,020
Depreciation	282,700	70,675	353,375
Bad debt provision	3,176	1,498	4,674
Miscellaneous	7,976	3,128	11,104
Rent	3,250	3,250	6,500
Total Operating Expenses	781,338	340,968	1,122,306
Operating Loss	(126,204)	(39,970)	(166,174)
Non-Operating Revenues (Expenses)			
Interest income	2,491	623	3,114
Interest expense	(61,007)	(15,252)	(76,259)
Gain on disposal	-	-	-
Total Non-Operating Revenue (Expenses)	(58,516)	(14,629)	(73,145)
Change in Net Position			(239,319)
Total Net Position, Beginning			7,212,679
Total Net Position, Ending			\$ 6,973,360

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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 and Members of the City Council
City of Burkesville
Burkesville, Kentucky 42717

I 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, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated October 19, 2017.

Internal Control over Financial Reporting

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

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

My 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. I did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2017-001 and 2017-002.

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
October 19, 2017

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

MATERIAL WEAKNESS

2017-001 Financial Statement Preparation

Condition:

During my audit procedures, I noted some instances of this objective not being completely achieved.

Criteria:

A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause:

The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regards to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017**

MATERIAL WEAKNESS

2017-002 Segregation of Duties

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of segregation of duties which enabled one individual access to authorize transactions, custody of assets, recording and reporting of the City's transactions in the cash receipts, cash disbursement, and payroll process.

Criteria:

Segregation of duties is a control in which no person should be given the responsibility to perform more than one related function of an accounting process.

Cause:

Due to the small number of administrative and clerical employees at the City, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

Have the City Board of Commissioners, Mayor, and City Clerk, review, initial, and date the billing and cash collection reports, and bank reconciliation as a function of the accounting process and reference the review in the board minutes.

Views of Responsible Officials:

Management agrees with the recommendation.