CITY OF BURKESVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF BURKESVILLE, KENTUCKY
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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

Glen Murphy
Billy Guffey
Terry Murphy
Billy Maxey
Lana Owens
Odis Young

OFFICERS

Brenda Spears
City Clerk/Treasurer

Angie Capps
City Attorney

Bradford Purdue
Chief of Police

Greg Cary
Fire Chief

David McIntyre
Public Works Director

Ed Peretto
Water/Wastewater Director

SAMMY K. LEE, P.S.C.
Certified Public Accountant

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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, 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

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, 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 Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* which resulted in a restatement of the City's July 1, 2017 net position in the amount of $529,540. My opinion is not modified with respect to this matter.

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 is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 35–41 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 me 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 accompanying supplementary information such as the schedule of water and sewer revenues, expenses, and changes in net position on page 42, is presented for purposes of additional analysis as required by the *United States Department of Agriculture (USDA)* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 7, 2018, 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
November 7, 2018

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental	Business-Type	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 440,526	$ 356,432	$ 796,958
Certificates of deposit	-	203,583	203,583
Receivables, net			
Customers	-	143,594	143,594
Other	3,325	-	3,325
Interest	1,021	2,970	3,991
Total Current Assets	**444,872**	**706,579**	**1,151,451**
Non-Current Assets			
Restricted cash	49,389	626,199	675,588
Certificates of deposit	433,141	-	433,141
Capital assets:			
Non-depreciable	130,319	61,445	191,764
Depreciable, net	465,535	9,213,591	9,679,126
Total Non-Current Assets	**1,078,384**	**9,901,235**	**10,979,619**
Total Assets	**1,523,256**	**10,607,814**	**12,131,070**
Deferred Outflows of Resources			
Deferred amounts related to pension	572,349	232,652	805,001
Deferred amounts related to OPEB	212,724	66,037	278,761
Total Deferred Outflows of Resources	**785,073**	**298,689**	**1,083,762**
Liabilities			
Current Liabilities			
Accounts payable	6,078	23,973	30,051
Accrued expenses	56,447	19,019	75,466
Accrued interest	-	17,403	17,403
Customer deposits payable	-	49,202	49,202
Revenue bonds payable	-	67,000	67,000
Notes payable	-	131,836	131,836
Total Current Liabilities	**62,525**	**308,433**	**370,958**
Non-Current Liabilities			
Revenue bonds payable	-	898,600	898,600
Notes payable	-	1,869,980	1,869,980
Net pension liability	1,615,504	665,820	2,281,324
Net OPEB liability	583,855	224,059	807,914
Total Non-Current Liabilities	**2,199,359**	**3,658,459**	**5,857,818**
Total Liabilities	**2,261,884**	**3,966,892**	**6,228,776**
Deferred Inflows of Resources			
Deferred amounts related to pension	135,329	68,895	204,224
Deferred amounts related to OPEB	36,224	11,731	47,955
Total Deferred Inflows of Resources	**171,553**	**80,626**	**252,179**
Net Position			
Net investment in capital assets	595,854	6,307,630	6,903,484
Restricted	49,389	626,199	675,588
Unrestricted (deficit)	(770,351)	(74,844)	(845,195)
Total Net Position (Deficit)	**$ (125,108)**	**$ 6,858,985**	**$ 6,733,877**

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	Net (Expense) Revenue
Government Activities					
General government	$ 150,626	$ -	$ -	$ -	$ (150,626)
Police	970,757	-	-	171,785	(798,972)
Fire	120,558	-	-	-	(120,558)
Street	289,180	-	-	-	(289,180)
Parks and recreation	116,464	-	-	-	(116,464)
Total Governmental Activities	**1,647,585**	**-**	**-**	**171,785**	**(1,475,800)**
Business-Type Activities					
Water and sewer	1,239,301	1,088,961	-	-	(150,340)
Sanitation	237,005	227,487	-	-	(9,518)
Total Business-Type Activities	**1,476,306**	**1,316,448**	**-**	**-**	**(159,858)**
Total Activities	**$ 3,123,891**	**$ 1,316,448**	**$ -**	**$ 171,785**	**$ (1,635,658)**

	Governmental Activities	Business-Type Activities	Total
Change in Net Position			
Net (expense) revenue	$ (1,475,800)	$ (159,858)	$ (1,635,658)
General Revenues			
Taxes	106,670	-	106,670
Licenses, permits, and other taxes	943,071	-	943,071
Intergovernmental	339,097	-	339,097
Services and fees	71,610	-	71,610
Interest income	4,758	4,791	9,549
Miscellaneous	8,006	22,854	30,860
Total General Revenues	1,473,212	27,645	1,500,857
Change in Net Position	**(2,588)**	**(132,213)**	**(134,801)**
Net Position, Beginning, as Orignially Stated	**259,609**	**7,147,163**	**7,406,772**
Prior Period Adjustment (See Note 12)	**(382,129)**	**(155,965)**	**(538,094)**
Net Position (Deficit), Beginning as Restated	**(122,520)**	**6,991,198**	**6,868,678**
Net Position (Deficit), Ending	**$ (125,108)**	**$ 6,858,985**	**$ 6,733,877**

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

CITY OF BURKESVILLE, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 440,526	$ -	$ 440,526
Certificates of deposit	433,141	-	433,141
Accounts receivable			
Customers	-	-	-
Other	3,325	-	3,325
Interest receivable	1,021	-	1,021
Restricted cash	-	49,389	49,389
Total Assets	**$ 878,013**	**$ 49,389**	**$ 927,402**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 6,078	$ -	$ 6,078
Accrued expenses	56,447	-	56,447
Total Liabilities	**62,525**	**-**	**62,525**
Fund Balances			
Restricted	-	49,389	49,389
Unassigned	815,488	-	815,488
Total Fund Balances	**815,488**	**49,389**	**864,877**
Total Liabilities and Fund Balances	**$ 878,013**	**$ 49,389**	**$ 927,402**

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

Fund balances reported above	**$ 864,877**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	595,854
Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds.	613,520
All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long-term liabilities are not due and payable in the current period and therefore are not reported.	
Net pension liability	(1,615,504)
Net OPEB liability	(583,855)
Net Position (Deficit) of Governmental Activities	**$ (125,108)**

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 106,670	$ -	$ 106,670
Licenses, permits and fees	943,071	-	943,071
Intergovernmental	305,394	33,703	339,097
Service charges and fees	71,610	-	71,610
Other	184,504	45	184,549
Total Revenues	**1,611,249**	**33,748**	**1,644,997**
Expenditures			
General and administration department	116,081	-	116,081
Police department	723,170	-	723,170
Fire department	84,350	-	84,350
Street department	202,512	21,188	223,700
Park and recreation department	91,944	-	91,944
Capital outlay	284,914	-	284,914
Total Expenditures	**1,502,971**	**21,188**	**1,524,159**
Net Change in Fund Balance	**108,278**	**12,560**	**120,838**
Fund Balance, Beginning, as Originally Stated	**702,259**	**36,829**	**739,088**
Prior Period Adjustment (See Note 12)	**4,951**	**-**	**4,951**
Fund Balance, Beginning as Restated	**707,210**	**36,829**	**744,039**
Fund Balance, Ending	**$ 815,488**	**$ 49,389**	**$ 864,877**

Net Changes in Fund Balances - Total Governmental Funds	**$ 120,838**
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 capital outlay of $284,914 exceeds depreciation expense of $64,514 in the current period.	220,400
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension liability and OPEB of governmental activities	(343,826)
Change in Net Position of Governmental Activities	**$ (2,588)**

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

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Water & Sewer Utilities	Sanitation Utilities	Total Proprietary Funds
Assets			
Current Assets			
Cash and cash equivalents	$ 273,491	$ 82,941	$ 356,432
Certificates of deposit	155,352	48,231	203,583
Receivables, net			
Customers	118,684	24,910	143,594
Interest	2,266	704	2,970
Total Current Assets	**549,793**	**156,786**	**706,579**
Non-Current Assets			
Restricted cash	624,831	1,368	626,199
Capital assets:			
Non-depreciable	61,445	-	61,445
Depreciable, net	9,021,327	192,264	9,213,591
Total Non-Current Assets	**9,707,603**	**193,632**	**9,901,235**
Total Assets	**10,257,396**	**350,418**	**10,607,814**
Deferred Outflows of Resources			
Deferred amounts related to pension	188,455	44,197	232,652
Deferred amounts related to OPEB	54,329	11,708	66,037
Total Deferred Outflows of Resources	**242,784**	**55,905**	**298,689**
Liabilities			
Current Liabilities			
Accounts payable	16,129	7,844	23,973
Accrued expenses	16,434	2,585	19,019
Accrued interest	17,074	329	17,403
Customer deposits payable	49,202	-	49,202
Revenue bonds payable	67,000	-	67,000
Notes payable	111,976	19,860	131,836
Total Current Liabilities	**277,815**	**30,618**	**308,433**
Non-Current Liabilities			
Revenue bonds payable	898,600	-	898,600
Notes payable	1,814,833	55,147	1,869,980
Net pension liability	538,036	127,784	665,820
Net OPEB liability	184,791	39,268	224,059
Total Non-Current Liabilities	**3,436,260**	**222,199**	**3,658,459**
Total Liabilities	**3,714,075**	**252,817**	**3,966,892**
Deferred Inflows of Resources			
Deferred amounts related to pension	55,673	13,222	68,895
Deferred amounts related to OPEB	9,675	2,056	11,731
Total Deferred Inflows of Resources	**65,348**	**15,278**	**80,626**
Net Position			
Net investment in capital assets	6,190,373	117,257	6,307,630
Restricted	624,831	1,368	626,199
Unrestricted (deficit)	(94,447)	19,603	(74,844)
Total Net Position	**$ 6,720,757**	**$ 138,228**	**$ 6,858,985**

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, 2018

	Water and Sewer Utilities	Sanitation Utilities	Total Proprietary Funds
Operating Revenues			
Charges for services	$ 1,088,961	$ 227,487	$ 1,316,448
Miscellaneous	22,854	-	22,854
Total Operating Revenues	**1,111,815**	**227,487**	**1,339,302**
Operating Expenses			
Salaries	262,439	57,135	319,574
Employee benefits	185,708	28,112	213,820
Contractual services	8,780	3,934	12,714
Materials and supplies	154,639	90,125	244,764
Travel and training	3,914	44	3,958
Utilities and telephone	130,376	4,549	134,925
Insurance	41,638	15,125	56,763
Depreciation	362,049	27,309	389,358
Bad debt provision	5,430	1,138	6,568
Miscellaneous	12,827	6,548	19,375
Total Operating Expenses	**1,167,800**	**234,019**	**1,401,819**
Operating Loss	**(55,985)**	**(6,532)**	**(62,517)**
Non-Operating Revenues (Expenses)			
Interest income	3,933	858	4,791
Interest expense	(71,501)	(2,986)	(74,487)
Total Non-Operating Revenue (Expenses)	**(67,568)**	**(2,128)**	**(69,696)**
Change in Net Position	(123,553)	(8,660)	(132,213)
Total Net Position, Beginning, as Originally Stated	**6,973,320**	**173,843**	**7,147,163**
Prior Period Adjustment (See Note 12)	**(129,010)**	**(26,955)**	**(155,965)**
Total Net Position, Beginning as Restated	**6,844,310**	**146,888**	**6,991,198**
Total Net Position, Ending	**$ 6,720,757**	**$ 138,228**	**$ 6,858,985**

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, 2018

	Water & Sewer Utilities	Sanitation Utilities	Total Proprietary Funds
Cash Flows from Operating Activities			
Cash received from customers	$ 1,070,825	$ 227,301	$ 1,298,126
Cash received from other sources	22,854	-	22,854
Cash payments to suppliers for goods and services	(461,789)	(148,698)	(610,487)
Cash payments to employees	(263,429)	(58,339)	(321,768)
Net Cash Provided by Operating Activities	368,461	20,264	388,725
Cash Flows from Capital and Related Financing Activities			
Principal and interest paid on long-term debt	(249,609)	(22,595)	(272,204)
Acquisition and construction of capital assets	-	(712)	(712)
Net Cash Used by Capital and Related Financing Activities	(249,609)	(23,307)	(272,916)
Cash Flows from Investing Activities			
Purchase of certificates of deposit	952	335	1,287
Cash received from interest income	2,619	489	3,108
Net Cash Provided by Investing Activities	3,571	824	4,395
Net Increase (Decrease) in Cash and Cash Equivalents	122,423	(2,219)	120,204
Cash and Cash Equivalents at July 1, 2017	775,899	86,528	862,427
Cash and Cash Equivalents at June 30, 2018	$ 898,322	$ 84,309	$ 982,631
(1) Cash and cash equivalents are reflected in the Statement of Net Position as follows:			
Cash and cash equivalents	$ 273,491	$ 82,941	$ 356,432
Restricted cash and cash equivalents	624,831	1,368	626,199
Subtotal	$ 898,322	$ 84,309	$ 982,631
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating Loss	$ (55,985)	$ (6,532)	$ (62,517)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	362,049	27,309	389,358
Bad debt provision	5,430	1,138	6,568
Changes in assets and liabilities:			
(Increase) decrease in customer accounts receivable	(18,136)	(186)	(18,322)
(Increase) decrease in prepaid expenses	527	216	743
(Increase) decrease in outflows of resources	(105,088)	(16,643)	(121,731)
Increase (decrease) in accounts payable	6,767	225	6,992
Increase (decrease) in accrued expenses	281	(1,204)	(923)
Increase (decrease) in customer deposits	1,815	-	1,815
Increase (decrease) in net pension liability	51,641	(11,186)	40,455
Increase (decrease) in net OPEB liability	53,812	11,849	65,661
Increase (decrease) in inflows of resources	65,348	15,278	80,626
Total adjustments	424,446	26,796	451,242
Net Cash Provided by Operating Activities	$ 368,461	$ 20,264	$ 388,725

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

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 City, 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.

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.

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 2018, the original budget was approved in April 2017 and amended May 2018. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposit

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 2018 were levied in November 2017, 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 24 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.

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:

Description	Estimated Lives
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.

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 two items that meets this criterion, as related to pensions and other postemployment benefits (OPEB) 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 and OPEB liabilities 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 two items that meet the criterion for this category as related to pensions and OPEB reported in the Statement of Net Position.

Pensions and Other Postemployment Benefits

The City participates in a cost-sharing multiple-employer plan to provide pension and OPEB benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension and OPEB liability. For the purposes of measuring the net pension and OPEB liability, deferred outflows or inflows of resources related to pension and OPEB, and pension and OPEB 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.

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.

Adoption of New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued *Statement 75, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions* by state and local government employees, which became effective for fiscal years beginning after June 15, 2017. It requires reporting of other post employment benefits(OPEB) other than pensions.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2018 consisted of the following:

Account	Interest Bearing	Governmental	Water & Sewer	Sanitation	Total
Operating	Yes	$ 371,084	$ 273,472	$ 82,941	$ 727,497
LGEAF	Yes	5,492	-	-	5,492
MAF	Yes	31,394	-	-	31,394
Fire and Rescue	Yes	25,311	-	-	25,311
Police Department	Yes	4,777	-	-	4,777
Payroll	Yes	39,353	-	-	39,353
KLC	Yes	12,504	5,666	1,368	19,538
1980 Sinking Fund	Yes	-	23,170	-	23,170
1989 Sinking Fund	Yes	-	155,619	-	155,619
1997 Depreciation Fund	Yes	-	100,154	-	100,154
2010 Depreciation Fund	Yes	-	33,396	-	33,396
2010 Sinking Fund	Yes	-	18,102	-	18,102
2011 Sinking Fund	Yes	-	130,828	-	130,828
2011 Depreciation Fund	Yes	-	51,318	-	51,318
2015 Sinking Fund	Yes	-	93,532	-	93,532
2015 Depreciation Fund	Yes	-	13,065	-	13,065
Total		**$ 489,915**	**$ 898,322**	**$ 84,309**	**$ 1,472,546**

Certificates of deposit at June 30, 2018 consisted of the following:

Account	Interest Bearing	Governmental	Water & Sewer	Sanitation	Total
Certificates of deposit	Yes	$ 433,141	$ 155,352	$ 48,231	$ 636,724
Total		**$ 433,141**	**$ 155,352**	**$ 48,231**	**$ 636,724**

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

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, 2018, none of the City's deposits were subject to credit risk.

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 $2,109, 270 and the bank balances totaled $2,095,525. At June 30, 2018, $1,575,987 of collateral was pledged to the City by the custodial bank and $519,538 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:

	General	Water & Sewer	Sanitation	Total
Accounts receivables				
Customers	$ -	$ 172,312	$ 37,667	$ 209,979
Other	3,325	-	-	3,325
Interest	1,021	2,266	704	3,991
Gross receivables	4,346	174,578	38,371	217,295
Less allowance for bad debt	-	53,628	12,757	66,385
Net total receivables	**$ 4,346**	**$ 120,950**	**$ 25,614**	**$ 150,910**

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, 2018.

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

Governmental Activities	Beginning Balance 7/1/2017	Increases	Decreases	Ending Balance 6/30/2018
Capital assets, not being depreciated:				
Land	$ 130,319	$ -	$ -	$ 130,319
Total capital assets, not being depreciated:	130,319	-	-	130,319
Capital assets, being depreciated:				
Buildings	309,372	-	-	309,372
Machinery and equipment	852,548	200,004	152,584	899,968
Furniture and fixtures	64,528	-	636	63,892
Infrastructure	853,337	84,910	-	938,247
Road equipment	95,320	-	8,136	87,184
Total capital assets, being depreciated:	2,175,105	284,914	161,356	2,298,663
Less accumulated depreciation for Governmental Activities				
Building	292,161	1,242	-	293,403
Machinery and equipment	798,007	31,918	152,584	677,341
Furniture and fixtures	59,921	634	636	59,919
Infrastructure	690,561	29,387	-	719,948
Road equipment	89,320	1,333	8,136	82,517
Total accumulated depreciation	1,929,970	64,514	161,356	1,833,128
Total capital assets, being depreciated, net	245,135			465,535
Government activities capital assets, net	$ 375,454			$ 595,854

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

	2018
General	$ 2,928
Police	5,776
Fire	26,899
Street	23,478
Park	4,099
MAF Fund	1,334
Total	**$ 64,514**

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

Business-Type Activities	Beginning Balance 7/1/2017	Increases	Decreases	Ending Balance 6/30/2018
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 and Improvements	38,254	-	-	38,254
Machinery and Equipment	354,823	-	-	354,823
Sanitary Sewer Extension	159,108	-	-	159,108
Utility Plant	10,708,950	-	-	10,708,950
Waste Water Treatment Facility	4,124,716	-	-	4,124,716
Sanitation Equipment	278,367	712	-	279,079
Total capital assets, being depreciated:	15,664,218	712	-	15,664,930
Less accumulated depreciation for Business-Type Activities				
Buildings and Improvements	33,818	941	-	34,759
Machinery and Equipment	305,127	11,786	-	316,913
Sanitary Sewer Extension	158,807	87	-	158,894
Utility Plant	2,564,063	227,852	-	2,791,915
Waste Water Treatment Facility	2,939,661	121,383	-	3,061,044
Sanitation Equipment	59,505	27,309	-	86,814
Total accumulated depreciation	6,060,981	389,358	-	6,450,339
Total capital assets, being depreciated, net	9,603,237			9,214,591
Business-type activities capital assets, net	$10,185,326			$ 9,276,036

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

	2018
Water	$ 289,639
Sewer	72,410
Sanitation	27,309
Total	$ 389,358

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Governmental-type					
Net Pension Liability	$ 1,272,060	$ 343,444	$ -	$ 1,615,504	$ -
Net OPEB Liability	-	583,855	-	583,855	-
Business-type					
Revenue Bonds	1,028,400	-	62,800	965,600	67,000
Notes Payable	2,131,710	-	129,894	2,001,816	131,836
Net Pension Liability	625,365	40,455	-	665,820	-
Net OPEB Liability	-	224,059	-	224,059	-
Total	**$ 5,057,535**	**$ 1,191,813**	**$ 192,694**	**$ 6,056,654**	**$ 198,836**

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, 2018:

Issue	Interest Rates	Issue Date	Maturity Date	Original Amount	Retired in 2018	Bonds Outstanding 6/30/2018
01-334802	5.0%	8/1/1980	3/1/2019	$ 255,000	$ 14,000	$ 15,000
91 - 03	5.0%	1/9/1990	3/1/2028	387,000	13,000	176,000
92 - 05	5.0%	7/15/1992	3/1/2032	1,091,000	31,000	640,000
91 - 07	4.5%	1/13/1998	3/1/2036	200,000	4,800	134,600
			Total	**$ 1,933,000**	**$ 62,800**	**$ 965,600**

NOTE 6 – LONG-TERM DEBT – CONTINUED

The following are the principal and interest maturities for the bonds outstanding as of June 30, 2018:

Year Ending June 30,	Principal	Interest	Total Annual Requirements
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	63,000	35,790	98,790
2024-2028	363,300	128,947	492,247
2029-2033	270,700	41,804	312,504
2034-2036	30,100	2,732	32,832
Total	**$ 965,600**	**$ 381,502**	**$ 1,347,102**

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2018 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
2019	$ 15,000	$ 750	$ 15,750
Total	**$ 15,000**	**$ 750**	**$ 15,750**

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2018 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
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	**$ 176,000**	**$ 51,600**	**$ 227,600**

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, 2018 for the payment of bond principal and interest are as follows for the 1992 bond:

Fiscal Year	Annual Requirements of Principal	Annual Requirements of Interest	Total Annual Requirements
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	**$ 640,000**	**$ 264,650**	**$ 904,650**

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, 2018 for the payment of bond principal and interest are as follows for the 1998 bond:

Fiscal Year	Annual Requirements of Principal	Annual Requirements of Interest	Total Annual Requirements
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	$ 134,600	$ 64,502	$ 199,102

Notes Payable

On September 3, 2009, the City of Burkesville entered into a loan assistance agreement of $1,153,000, with Kentucky Infrastructure Authority for a repair of the main street water line. As of June 30, 2018, the City had a balance of $343,754 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, 2031. 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, 2018, the City had a balance of $587,358 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, 2035.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, 2018, the City had a balance of $417,815 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 $13,000 repairs and maintenance reserve.

On January 1, 2017, the City of Burkesville entered into a loan assistance agreement of $520,644, with Kentucky Infrastructure Authority for a water distribution extension project. As of June 30, 2018, the City had a balance of $577,881 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, 2037. The loan calls for a $30,000 repairs and maintenance reserve.

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable-Continued

On January 26, 2017, the City of Burkesville entered into a loan agreement of $100,000, with First and Farmer's National Bank for a garbage truck. As of June 30, 2018, the City had a balance of $75,008 on the loan. The note bears interest at a rate of 3.5% and principal and interest payments are monthly. The note matures on January 26, 2022.

The minimum obligations of the City's at June 30, 2018 for the payment of loan principal and interest are as follows:

Year Ending June 30,	Principal	Interest	Total Annual Requirements
2019	$ 131,836	$ 18,504	$ 150,339
2020	133,531	16,808	150,339
2021	135,260	15,079	150,339
2022	128,255	14,004	142,259
2023	115,986	12,523	128,509
2024-2028	595,413	47,132	642,545
2029-2033	548,266	20,969	569,235
2034-2037	213,269	2,533	215,802
Total	**$ 2,001,816**	**$ 147,551**	**$ 2,149,367**

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 call for the creation of a repairs and maintenance reserve of $98,000. At June 30, 2018, the depreciation fund had a balance of $197,922.

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, 2018, the debt service funds had a balance of $421,243.

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 Statue 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.

NOTE 7 – RETIREMENT PLAN – CONTINUED

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, 2018, participating employers contributed 14.48% (non-hazardous) and 22.20% (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.

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 contributions 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 of service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old
		At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years
		or age 57+ sum of service years plus age equal 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old
		or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

NOTE 7 – RETIREMENT PLAN – CONTINUED

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, 2018 the City's covered payroll for hazardous and non-hazardous positions was $247,133 and $597,843, respectively.

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

At June 30, 2018, the City reported a liability of $2,281,324 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .042 percent for hazardous and .023 percent for non-hazardous.

At June 30, 2018, 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
Changes in proportion and differences between employer contribution and proportionate share of contribution	$ 45,071	$ 26,960
Differences between expected and actual results	36,008	34,144
Changes of assumptions	434,963	-
Net difference between projected and actual earnings on plan investments	167,939	143,120
City contributions subsequent to the measurement date	121,020	-
Total	**$ 805,001**	**$ 204,224**

The $121,020 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, 2019. 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,	
2019	$ 221,540
2020	$ 206,791
2021	$ 78,911
2022	$ (27,488)

NOTE 7 – RETIREMENT PLAN – CONTINUED

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Salary increase	3.25% average
Investment rate of return	6.25% for CERS non-hazardous

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.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation date	June 30, 2017
Experience study	July 1, 2008-June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	28 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of the assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average
Investment rate of return	7.50%

NOTE 7 – RETIREMENT PLAN – CONTINUED

Discount Rate

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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Asset Class	Target Allocations	Long-Term Nominal Real Rate of Return
U.S 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%	0.11%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Discount Rate	City's proportionate share of net pension liability
1% Decrease	5.25%	$ 2,873,594
Current discount rate	6.25%	$ 2,281,324
1% Increase	7.25%	$ 1,788,458

Payable to the Pension Plan – At June 30, 2018, the City did not have an outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

At June 30, 2018, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred inflows of resources	$	47,955
Deferred outflows of resources	$	278,761
Net OPEB liability	**$**	**807,914**

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statue Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because 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 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn $15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The district has contractually required contribution rate for the year ended June 30, 2018 was 4.70% (non-hazardous) and 9.35% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were $260,783 for the year ended June 30, 2018 for both non-hazardous and hazardous combined, Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of Jun 30, 2017 were based on an actuarial valuation date of Jun 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation date	June 30, 2017
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	26 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50%
Healthcare Trend Rate	
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (setback 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.84% for CERS non-hazardous, and 5.9% for CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighing the 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 assumptions are intended to be long-term assumptions and are 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.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	6.56%	100.00%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% Decrease	4.83%	$ 1,051,443
Current discount rate	5.83%	$ 807,914
1% Increase	6.83%	$ 606,906

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

City's Net OPEB Liability (Asset) Healthcare Cost		
Trend Rate -1% (6.5% decreasing to 4.00%)	Trend Rate (7.5% decreasing to 5.00%)	Trend Rate +1% (8.5% decreasing to 6.00%)
$ 599,244	$ 807,914	$ 1,072,878

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expenses of $105,310. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	$ -	$ 1,141
Implicit subsidy	5,646	1,187
Differences between expected and actual results	-	2,089
Changes of assumptions	228,125	-
Net difference between projected and actual earnings on plan investments	-	43,538
City contributions subsequent to the measurement date	44,990	-
Total	**$ 278,761**	**$ 47,955**

The $44,990 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows.

Year ending June 30,

2019	$	43,507
2020	$	43,507
2021	$	43,507
2022	$	27,040
2023	$	18,592
Thereafter	$	5,206

Deferred outflows and inflows related to differences between projected and actual earnings on plan investment are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City is not involved in lawsuits or matters which require disclosure with the ABA Statement policy regarding Lawyer's Responses to Auditor's Request per the opinion of counsel.

Significant losses are covered by commercial insurance with premiums (based on industry information adjustment for any City claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 10 – 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, 2018, the City was sufficiently insured.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through November 7, 2018, which is the date the financial statements were available to be issued.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

As described in Note 8 regarding the City's participation in the County Employee's Retirement Plan, the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, became effective for fiscal year 2018. That amount was under calculated in the amount of $377,178 for governmental activities and $152,362 for business-type activities as of June 30, 2018.

In addition, the City recognized an asset held by Kentucky League of Cities in the amount of $4,951 for governmental activities and $3,603 for business-type activities.

CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 91,000	$ 91,000	$ 106,670	$ 15,670
Licenses, permits and fees	921,950	921,950	943,071	21,121
Intergovernmental	443,804	443,804	305,394	(138,410)
Service charges and fees	67,000	67,000	71,610	4,610
Other	-	-	184,504	184,504
Total Revenues	**1,523,754**	**1,523,754**	**1,611,249**	**87,495**
Expenditures				
General and administrative	213,466	213,466	116,081	97,385
Police	846,260	846,260	723,170	123,090
Fire	194,314	194,314	84,350	109,964
Street	222,300	222,300	202,512	19,788
Parks and recreation	159,744	159,744	91,944	67,800
Capital outlay	-	-	284,914	(284,914)
Total Expenditures	**1,636,084**	**1,636,084**	**1,502,971**	**133,113**
Net Change in Fund Balance	**(112,330)**	**(112,330)**	**108,278**	**220,608**
Fund Balance, Beginning, as Originally Stated	**484,209**	**280,297**	**702,259**	**453,571**
Prior Period Adjustment (See Note 12)	**-**	**-**	**4,951**	**-**
Fund Balance, Beginning as Restated	**484,209**	**280,297**	**707,210**	**453,571**
Fund Balance, Ending	**$ 371,879**	**$ 167,967**	**$ 815,488**	**$ 674,179**

CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget
Expenditures				
General & Administration:				
Salaries	$ 56,000	$ 56,000	$ 54,536	$ 1,464
Employee benefits	27,651	27,651	31,559	(3,908)
Professional services	2,550	2,550	2,024	526
Materials and supplies	2,000	2,000	1,172	828
Insurance	4,500	4,500	3,217	1,283
Miscellaneous	6,600	6,600	8,128	(1,528)
Travel and training	900	900	41	859
Utilities	1,700	1,700	1,545	155
Telephone	2,665	2,665	2,900	(235)
Community development	5,000	5,000	7,308	(2,308)
PVA	3,900	3,900	3,651	249
CD	100,000	100,000	-	100,000
Total General & Administration	**$ 213,466**	**$ 213,466**	**$ 116,081**	**$ 97,385**
Police Department:				
Salaries and dispatch	$ 458,667	$ 498,900	$ 496,538	$ 2,362
Employee benefits	221,850	238,350	153,570	84,780
Materials, uniforms, and supplies	16,050	16,050	20,561	(4,511)
Insurance	17,203	24,000	43,399	(19,399)
Professional services	2,250	2,250	2,024	226
Miscellaneous	10,100	10,100	1,516	8,584
Travel and training	3,200	3,200	1,218	1,982
Utilities	1,600	1,600	1,597	3
Telephone	2,500	2,500	2,747	(247)
Total Police Department	**$ 733,420**	**$ 796,950**	**$ 723,170**	**$ 73,780**
Fire Department				
Salaries	$ 16,000	$ 18,800	$ 17,098	$ 1,702
Employee benefits	6,780	7,350	7,619	(269)
Materials and supplies	11,150	11,750	34,892	(23,142)
Insurance	14,000	14,000	15,246	(1,246)
Professional services	2,250	2,250	2,024	226
Miscellaneous	1,575	2,586	1,215	1,371
Travel and training	150	150	19	131
Utilities	5,000	5,000	4,617	383
Telephone	1,800	1,800	1,620	180
Total Fire Department	**$ 58,705**	**$ 63,686**	**$ 84,350**	**$ (20,664)**

CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget
Expenditures (Continued)				
Street Department				
Salaries	$ 76,000	$ 76,000	$ 65,357	$ 10,643
Employee benefits	39,450	39,450	50,990	(11,540)
Material, uniforms, and supplies	42,050	42,050	23,774	18,276
Insurance	4,900	4,900	9,268	(4,368)
Professional services	2,850	2,850	3,207	(357)
Miscellaneous	1,300	1,300	706	594
Travel and training	250	250	17	233
Utilities	55,000	55,000	48,986	6,014
Telephone	500	500	207	293
Total Street Department	**$ 222,300**	**$ 222,300**	**$ 202,512**	**$ 19,788**
Parks and Recreation				
Salaries	$ 34,000	$ 34,000	$ 32,151	$ 1,849
Employee benefits	15,409	15,409	15,429	(20)
Materials and supplies	8,200	8,200	9,470	(1,270)
Insurance	6,600	6,600	7,910	(1,310)
Professional services	2,350	2,350	2,024	326
Miscellaneous	67,135	67,135	4,550	62,585
Travel and training	50	50	24	26
Utilities	8,500	8,500	7,536	964
Southern KY classic	17,000	17,000	12,850	4,150
Total Parks and Recreation	**$ 159,244**	**$ 159,244**	**$ 91,944**	**$ 67,300**

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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS

	2016	2017	2018
HAZARDOUS			
City's proportion of the net pension liability (asset)	0.038935%	0.039437%	0.041847%
City's proportionate share of the net pension liability (asset)	$ 468,000	$ 605,398	$ 936,234
City's covered-employee payroll	$ 201,724	$ 224,004	$ 247,133
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	232.00%	270.26%	378.84%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	57.52%	53.95%
NON-HAZARDOUS			
City's proportion of the net pension liability (asset)	0.021581%	0.022232%	0.022980%
City's proportionate share of the net pension liability (asset)	$ 700,000	$ 955,859	$ 1,345,090
City's covered-employee payroll	$ 518,698	$ 561,095	$ 597,843
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	134.95%	170.36%	224.99%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS

	2016	2017	2018
HAZARDOUS			
Contractually required contribution	$ 40,869	$ 48,631	$ 54,864
Contributions in relation to the contractually required contribution	(40,869)	(48,631)	(54,864)
Contribution deficiency (excess)	$ -	$ -	$ -
City's covered-employee payroll	$ 201,724	$ 224,004	$ 247,133
Contributions as a percentage of covered-employee payroll	20.26%	21.71%	22.20%
NON-HAZARDOUS			
Contractually required contribution	$ 64,474	$ 78,273	$ 86,568
Contributions in relation to the contractually required contribution	(64,474)	(78,273)	(86,568)
Contribution deficiency (excess)	$ -	$ -	$ -
City's covered-employee payroll	$ 518,698	$ 561,095	$ 597,843
Contributions as a percentage of covered-employee payroll	12.43%	13.95%	14.48%

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, 2017 actuarial report.

Changes in assumptions. There were no changes in assumptions and methods reported in the June 30, 2017 actuarial report.

CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF CITY'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
FISCAL YEAR 2018

	Hazardous June 30, 2018	Non-Hazardous June 30, 2018
Contractually required contribution	$ 23,107	$ 28,099
Contributions in relation to the contractually required contribution	(23,107)	(28,099)
Contribution deficiency (excess)	**$ -**	**$ -**
City's covered-employee payroll	$ 247,133	$ 597,843
Contributions as a percentage of covered-employee payroll	9.35%	4.70%

CITY OF BURKESVILLE
SCHEDULE OF CHANGES IN THE CITY'S OPEB LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
FISCAL YEAR 2018

	Measurement Period Ending June 30, 2018			
Change in the Net OPEB Liability	**CERS Non-Hazardous Proportionate Share**		**CERS Hazardous Proportionate Share**	
Total OPEB Liability				
Service cost	$	19,641	$	8,576
Interest		55,348		47,357
Benefit changes		-		-
Difference between actual and expected experience		(1,526)		(1,034)
Assumption changes		119,562		163,647
Benefit payments		(32,200)		(26,638)
Net Change in Total OPEB Liability		**160,825**		**191,908**
Total OPEB Liability - Beginning		**809,593**		**651,591**
Total OPEB Liability - Ending	**$**	**970,417**	**$**	**843,499**
Plan Fiduciary Net Position				
Contributions - employer	$	30,638	$	18,549
Contributions - member		2,104		715
Benefit payments		(32,200)		(26,638)
Net investment income		60,847		60,214
Administrative Expense		(181)		(159)
Other		-		-
Net Change in Plan Fiduciary Net Position		**61,209**		**52,681**
Plan Fiduciary Net Position - Beginning		**447,232**		**444,881**
Plan Fiduciary Net Position - Ending	**$**	**508,441**	**$**	**497,561**
	$	-	$	-
Net OPEB Liability - Ending		**461,977**		**345,937**
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability				
Covered Payroll	$	597,843	$	247,133
Net OPEB Liability as a Percentage of Covered Payroll		81.10%		152.30%

CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF WATER AND SEWER REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Water Utilities	Sewer Utilities	Total
Operating Revenues			
Charges for services	$ 793,491	$ 295,470	$ 1,088,961
Miscellaneous	22,854	-	22,854
Total Operating Revenues	**816,345**	**295,470**	**1,111,815**
Operating Expenses			
Salaries	229,485	32,954	262,439
Employee benefits	152,613	33,095	185,708
Contractual services	4,390	4,390	8,780
Materials and supplies	102,143	52,496	154,639
Travel and training	3,914	-	3,914
Utilities and telephone	62,112	68,264	130,376
Insurance	23,302	18,336	41,638
Depreciation	289,639	72,410	362,049
Bad debt provision	3,948	1,482	5,430
Miscellaneous	10,177	2,650	12,827
Total Operating Expenses	**881,723**	**286,077**	1,167,800
Operating Loss	**(65,378)**	**9,393**	**(55,985)**
Non-Operating Revenues (Expenses)			
Interest income	3,343	590	3,933
Interest expense	(57,081)	(14,420)	(71,501)
Total Non-Operating Revenue (Expenses)	**(53,738)**	**(13,830)**	**(67,568)**
Change in Net Position			(123,553)
Total Net Position, Beginning			**6,973,320**
Prior Period Adjustment (See Note 12)			**(129,010)**
Total Net Position, Beginning as Restated			**6,844,310**
Total Net Position, Ending			**$ 6,720,757**

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 7, 2018.

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 deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2018-001 and 2018-002.

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
November 7, 2018

MATERIAL WEAKNESS

2018-001 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 for 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.

MATERIAL WEAKNESS

2018-002 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 in the cash collection and billing process.

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:
The City should have someone independent from billing clerks be responsible for the cash collection process.

Views of Responsible Officials:
Management agrees with the recommendation.