

**CITY OF BARDWELL
BARDWELL, KENTUCKY**

**ANNUAL
FINANCIAL REPORT**

June 30, 2015

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**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Bardwell, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Honorable Mayor Philip King
And Members of the City Council
City of Bardwell, Kentucky
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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardwell, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 and 40 and pension schedules on pages 41 - 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Other Information

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

The detailed statement of expenditures is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed statement of expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* , we have also issued our report dated February 16, 2016, on our consideration of the City of Bardwell, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bardwell, Kentucky's internal control over financial reporting and compliance.

Reed & Co. of Mayfield, PSC
Mayfield, Kentucky
February 16, 2016

BARDWELL CITY OFFICIALS

June 30, 2015

Philip King	Mayor
Michael Hoskins	Council Member
Edwina Turner	Council Member
Mahlon Thomas	Council Member
Ronald Smith	Council Member
Michael Collins	Council Member
Justin Shehorn	Council Member
Adrian Burgess	City Clerk / City Treasurer
Debbie Kelly	City Manager

CITY OF BARDWELL, KENTUCKY
STATEMENT OF NET POSITION
For the Year Ended June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 46,070	\$ 149,298	\$ 195,368
Receivables			
Property Taxes	49,054	-	49,054
Billed	-	120,489	120,489
Unbilled	-	100,170	100,170
Grants	-	-	-
Prepays and Other Assets	-	8,985	8,985
Accrued Interest	32	16	48
Inventory	-	46,538	46,538
Restricted Cash and Cash Equivalents	-	35,724	35,724
Construction in Progress	-	-	-
Capital Assets:			
Nondepreciable	38,775	46,188	84,963
Depreciable, net of Depreciation	1,566,153	3,015,794	4,581,947
Deferred Outflows Related to Pension	13,800	46,200	60,000
Total Assets	1,713,884	3,569,402	5,283,286
LIABILITIES			
Accounts Payable	13,146	89,728	102,874
Accrued Expenses	1,406	2,937	4,343
Meter Deposits	-	59,636	59,636
Compensated Absences	1,653	5,346	6,999
Net Pension Liability	109,760	367,455	477,215
Long-Term Debt	19,791	333,201	352,992
Total Liabilities	145,756	858,303	1,004,059
DEFERRED INFLOWS OF RESOURCES:			
Unavailable / Unearned Revenue - Property Taxes	40,000	-	40,000
Deferred Pension Amount(s)	12,252	41,016	53,268
Total Deferred Inflow of Resources	52,252	41,016	93,268
NET POSITION			
Invested in Capital Assets, Net of Related Debt	1,585,137	2,728,781	4,313,918
Restricted For:			
Meter Deposits	-	59,636	59,636
Unrestricted	(69,261)	(118,334)	(187,595)
TOTAL NET POSITION	\$ 1,515,876	\$ 2,670,083	\$ 4,185,959

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

CITY OF BARDWELL, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs Reporting Entity	Expenses	Program Revenues			Net (Expenses) Revenue & Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 192,235	\$ -	\$ -	\$ -	\$ (192,235)	\$ -	\$ (192,235)
Protection to Persons and Property	111,678	800	11,444	-	(99,434)	-	(99,434)
Public Works	71,505	-	-	-	(71,505)	-	(71,505)
Interest on Short-Term Debt	3,132	-	-	-	(3,132)	-	(3,132)
Total Governmental Activities	378,550	800	11,444	-	(366,306)	-	(366,306)
Business-type Activities							
Bardwell Utilities	1,806,469	1,663,132	-	-	-	(143,337)	(143,337)
Total business-type activities	1,806,469	1,663,132	-	-	-	(143,337)	(143,337)
Total Primary Government	\$ 2,185,019	\$ 1,663,932	\$ 11,444	\$ -	(366,306)	(143,337)	(509,643)
General Revenues:							
Taxes:							
					47,051	-	47,051
					1,192	-	1,192
					6,787	-	6,787
					132,708	-	132,708
					64,036	-	64,036
					3	1,111	1,114
					39,228	-	39,228
					-	-	-
					16,800	(16,800)	-
					307,805	(15,689)	292,116
					(58,501)	(159,026)	(217,527)
					1,687,603	3,208,170	4,895,773
					(113,226)	(379,061)	(492,287)
					1,574,377	2,829,109	4,403,486
					\$ 1,515,876	\$ 2,670,083	\$ 4,185,959

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

CITY OF BARDWELL, KENTUCKY
GOVERNMENTAL FUND(S)
BALANCE SHEET
For the Year Ended June 30, 2015

	General Fund	Total Governmental Fund(s)
ASSETS		
Cash and Cash Equivalents	\$ 46,070	\$ 46,070
Grants Receivable	-	-
Taxes Receivable	49,086	49,086
Total Assets	\$ 95,156	\$ 95,156
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Accounts Payable	13,146	13,146
Accrued Wages and Benefits	3,059	3,059
Total Liabilities	16,205	16,205
Deferred Inflows of Resources		
Unavailable / Unearned Revenue -		
Property Taxes	40,000	40,000
FUND BALANCES:		
Restricted	-	-
Assigned	21,245	21,245
Unassigned	17,706	17,706
Total Fund Balances	38,951	38,951
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	\$ 95,156	

Reconciliation of the Balance Sheet-Governmental Funds to Statement of changes in Net Position:

Amounts Reported for Governmental Activities In The Statement
Of Net Position Are Different Because:

Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	1,604,928
Long-Term debt is not due and payable in the current period and, therefore, is not reported in the funds as liabilities in Governmental Funds:	
Note Payable	(19,791)
Net Pension Liability	(109,760)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reportable in governmental funds:	
Deferred outflows of resources represents contributions subsequent to plan measurement date.	13,800
Deferred inflows of resources represent difference between projected and actual investment earnings.	(12,252)

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 1,515,876
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The Accompanying Notes are an Integral Part of these Financial Statements.

CITY OF BARDWELL, KENTUCKY
GOVERNMENTAL FUND(S)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE(S)
For the Year Ended June 30, 2015

	General Fund	Total Governmental Fund(s)
REVENUES:		
Taxes	\$ 251,774	\$ 251,774
Licenses and Permits	1,275	1,275
Intergovernmental revenues	33,960	33,960
Charges for services and use of property	800	800
Miscellaneous	15,437	15,437
Interest	3	3
Other	-	-
Total Revenues	303,249	303,249
EXPENDITURES:		
General Government	123,807	123,807
Protection to Persons and Property	88,566	88,566
Public Works	61,104	61,104
Debt Service, Interest \$3,678	19,682	19,682
Total Expenditures	293,159	293,159
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (uses)	10,090	10,090
OTHER FINANCING SOURCES (USES):		
Proceeds From Sale of Assets	-	-
Proceeds From Financing Obligations	-	-
Transfers to Other Funds	(65,250)	(65,250)
Transfers From Other Funds	82,050	82,050
Total Other Financing Sources (Uses)	16,800	16,800
Net change in Fund Balances	26,890	26,890
Fund Balance - Beginning	12,061	12,061
Fund Balance - Ending	\$ 38,951	\$ 38,951

The Accompanying Notes are an Integral Part of these Financial Statements

CITY OF BARDWELL, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE(S) OF GOVERNMENTAL FUND(S) TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

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

Net Change in Fund Balance - Total Governmental Funds \$ 26,890

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

Capital Outlay	36,316
Depreciation Expense	(106,930)
Assets Disposed of, net book value	-

Loan Proceeds are treated as other financing sources in the Governmental Funds as a current financial resource, but in the Statement of Activities these proceeds are not reported as income. (20,312)

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

Note Principal Payment	521
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Governmental Funds report pension contributions as expenditures using the current financial resources measurement focus. However, in the Government-wide Statement of Activities, the cost of pension benefits earned is reported economic resource measurement focus and the full accrual basis of accounting.

City Pension Contribution (Deferred Outflows)	13,800
Cost of Pension Benefits Earned	(8,786)

Change in Net Position - Governmental Activities **\$ (58,501)**

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

CITY OF BARDWELL, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-type Activities			
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	Total
ASSETS				
Current Assets:				
Current Cash and Cash Equivalents	\$ 97,744	\$ 43,888	\$ 7,666	\$ 149,298
Receivables:				
Billed	89,207	4,043	27,239	120,489
Unbilled	69,503	8,744	21,923	100,170
Grants	-	-	-	-
Prepaid and Other Assets	2,995	2,995	2,995	8,985
Accrued Interest	-	16	-	16
Inventories	22,839	16,192	7,507	46,538
TOTAL CURRENT ASSETS	282,288	75,878	67,330	425,496
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	14,796	11,290	9,638	35,724
Capital Assets:				
Land	20,667	7,529	17,992	46,188
Plant and Equipment	1,378,657	718,593	3,741,529	5,838,779
Less Accumulated Depreciation	(746,646)	(571,173)	(1,505,166)	(2,822,985)
TOTAL NONCURRENT ASSETS	667,474	166,239	2,263,993	3,097,706
Deferred Outflows of Resources				
Deferred Pension Amounts	18,480	10,164	17,556	46,200
TOTAL ASSETS	968,242	252,281	2,348,879	3,569,402
LIABILITIES				
Current Liabilities:				
Account Payable	67,832	5,515	16,381	89,728
Accrued Expenses	2,943	-	(6)	2,937
Meter Deposits	19,595	20,996	19,045	59,636
Compensated Absences	1,782	1,782	1,782	5,346
Current Portion of Long-Term Debt	131,142	6,875	7,578	145,595
TOTAL CURRENT LIABILITIES	223,294	35,168	44,780	303,242
Noncurrent Liabilities:				
Net Pension Liability	146,982	80,840	139,633	367,455
Notes Payable	41,654	51,417	94,535	187,606
TOTAL NONCURRENT LIABILITIES	188,636	132,257	234,168	555,061
TOTAL LIABILITIES	411,930	167,425	278,948	858,303
Deferred Inflows of Resources:				
Deferred Pension Amounts	16,406	9,024	15,586	41,016
NET POSITION				
Invested in Capital Assets, Net of Related Debt	479,882	96,657	2,152,242	2,728,781
Restricted For:				
Meter Deposit	19,595	20,996	19,045	59,636
Unrestricted	40,429	(41,821)	(116,942)	(118,334)
TOTAL NET POSITION	\$ 539,906	\$ 75,832	\$ 2,054,345	\$ 2,670,083

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

CITY OF BARDWELL, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-type Activities				Totals
	Enterprise Funds				
	Electric System Fund	Gas System Fund	Water System Fund	Sewer System Fund	
OPERATING REVENUES					
Charges For Services	\$ 773,619	\$ 555,617	\$ 104,750	\$ 165,884	\$ 1,599,870
Material & Miscellaneous	56,507	6,105	500	150	63,262
Capital Grants	-	-	-	-	-
TOTAL OPERATING REVENUES	<u>830,126</u>	<u>561,722</u>	<u>105,250</u>	<u>166,034</u>	<u>1,663,132</u>
OPERATING EXPENSES					
Utility Purchases	630,002	241,990	-	182,962	1,054,954
General Expenses	59,818	20,236	25,407	5,115	110,576
Wages and Related Expense	116,535	62,792	56,760	52,846	288,933
Employee Benefits	26,013	43,120	13,126	11,780	94,039
Insurance	-	40,272	-	-	40,272
Contract Labor	-	1,400	-	-	1,400
Fuel and Vehicle Expense	10,229	6,974	2,377	4,378	23,958
Professional Fees	500	-	-	-	500
Depreciation	55,742	16,031	53,298	53,298	178,369
TOTAL OPERATING EXPENSES	<u>898,839</u>	<u>432,815</u>	<u>150,968</u>	<u>310,379</u>	<u>1,793,001</u>
OPERATING INCOME (LOSS)	<u>(68,713)</u>	<u>128,907</u>	<u>(45,718)</u>	<u>(144,345)</u>	<u>(129,869)</u>
NONOPERATING REVENUES (EXPENSE)					
Interest Income	1,088	22	-	1	1,111
Interest Expense	(6,333)	(1,997)	(2,569)	(2,569)	(13,468)
TOTAL NONOPERATING REVENUES (EXPENSE)	<u>(5,245)</u>	<u>(1,975)</u>	<u>(2,569)</u>	<u>(2,568)</u>	<u>(12,357)</u>
Income (Loss) Before Contributions And Transfers	<u>(73,958)</u>	<u>126,932</u>	<u>(48,287)</u>	<u>(146,913)</u>	<u>(142,226)</u>
Capital Contributions					
Transfers In	94,000	17,000	88,200	-	199,200
Transfers Out	(50,500)	(161,500)	-	(4,000)	(216,000)
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>43,500</u>	<u>(144,500)</u>	<u>88,200</u>	<u>(4,000)</u>	<u>(16,800)</u>
CHANGE IN NET POSITION	<u>(30,458)</u>	<u>(17,568)</u>	<u>39,913</u>	<u>(150,913)</u>	<u>(159,026)</u>
Total Net Position - Beginning, as Previously Stated	721,988	176,793	2,309,389		3,208,170
Effect of Adoption of GASB Statement No. 68	(151,624)	(83,393)	(144,044)		(379,061)
Total New Position - Beginning, as Restated	<u>570,364</u>	<u>93,400</u>	<u>2,165,345</u>		<u>2,829,109</u>
Total Net Position - Ending	<u>\$ 539,906</u>	<u>\$ 75,832</u>	<u>\$ 2,054,345</u>		<u>\$ 2,670,083</u>

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

CITY OF BARDWELL, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-type Activities			Total
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers	\$ 838,040	\$ 567,835	\$ 275,113	\$ 1,680,988
Receipts From Grants- Operating	-	-	-	-
Payments to Suppliers	(698,382)	(313,841)	(205,669)	(1,217,892)
Payments To Employees	(142,502)	(105,866)	(134,466)	(382,834)
Net Cash Provided By Operating Activities	(2,844)	148,128	(65,022)	80,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Net	43,500	(144,500)	84,200	(16,800)
Net Cash Provided (Used) By Noncapital Financing Activities	43,500	(144,500)	84,200	(16,800)
CASH FLOWS FROM CAPITAL AND RELATED FINANCIING ACTIVITIES				
Pension Liability / Deferred	(6,716)	(3,693)	(6,381)	(16,790)
Proceeds from Capital Grants	-	-	-	-
Proceeds From Loans	500	-	-	500
Principal Payment on Loans	(31,567)	(5,615)	(7,308)	(44,490)
Acquisition of Fixed Assets	(10,438)	(18,123)	-	(28,561)
Interest Paid on Loans	(6,333)	(1,997)	(5,138)	(13,468)
Net Cash (Used) Provided By Capital and Related Financing Activities	(54,554)	(29,428)	(18,827)	(102,809)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Earned	1,088	22	1	1,111
Net Cash Provided By Investing Activities	1,088	22	1	1,111
Net Increase (Decrease) in Cash and Cash Equivalents	(12,810)	(25,778)	352	(38,236)
Cash and Cash Equivalents - July 1	125,351	80,956	16,952	223,259
Cash and Cash Equivalents - June 30	<u>\$ 112,541</u>	<u>\$ 55,178</u>	<u>\$ 17,304</u>	<u>\$ 185,023</u>

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

CITY OF BARDWELL, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2015

Reconciliation off Operating Income to Net Cash Provided (Used) by Operating Activities	Business-type Activities			
	Enterprise Funds			
	Electric System Fund	Gas System Fund	Water And Sewer Fund	Total
Operating Income (Loss)	\$ (75,429)	\$ 125,214	\$ (196,444)	\$ (146,659)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities				
Depreciation Expense	55,742	16,031	106,596	178,369
(Increase) Decrease In:				
Accounts Receivable	7,498	5,423	3,434	16,355
Prepaid and Other Assets	(228)	(228)	(228)	(684)
Increase (Decrease)				
Accounts Payable	2,890	(2,561)	14,870	15,199
Accrued Expenses	(494)	(180)	(72)	(746)
Compensated Absences	46	46	46	138
Meter Deposits	415	690	395	1,500
Deferred Pension Amounts	6,716	3,693	6,381	16,790
Net Cash Provided By Operating Activities	<u>\$ (2,844)</u>	<u>\$ 148,128</u>	<u>\$ (65,022)</u>	<u>\$ 80,262</u>

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

**NOTES
SECTION**

CITY OF BARDWELL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

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

C. Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

Reclassifications

Where presented, certain 2015 financial statement amounts may have been reclassified to conform to the 2015 presentation.

The City report the following major governmental funds:

General Fund—The general fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund. The City receives Municipal Road Aid funds, which normally would be reported as a special revenue fund. The aid is insignificant to the overall operation. The road aid is presented as a general fund revenue.

The City reports the following major proprietary funds:

Bardwell City Utilities:

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

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

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

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

Assets, Liabilities, and Net Assets or Equity

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

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

Capital Assets

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

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

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

The estimated useful lives are as follows:

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

Compensated Absences

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

Restricted Assets

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

Statement of Cash Flows

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

Estimates

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

Restricted Assets Component of Net Position

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

Fund Equity

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

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

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

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

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

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

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

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

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

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

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to / deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows / Inflows of Resources

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

The City has only one item that qualifies for reporting in this category: The pension-related deferred outflows reported in the government-wide statement of net position totaling \$60,000 at June 30, 2015, as described in Note 7 to financial statements.

In addition to liabilities, the statement of financial position and / or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City only has two items that meet this criteria: unavailable / unearned revenue-property taxes and the pension deferred inflows reported in the government-wide statement of net position totaling \$93,268 at June 30, 2015, as described in Notes 3 and 7 to financial statements.

Note 2. DEPOSITS

The City of Bardwell maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the city and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk in the event of a depository institution failure, the City's deposits may not be returned. The City does not have a depository policy for custodial credit risk but rather follows the requirements of RS 41.240(4). As of June 30, 2015, all deposits of the primary government were covered by the FDIC insurance or a properly executed collateral security agreement.

Note 3. PROPERTY TAXES

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Carlisle County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Carlisle County, and the annual increase in the property tax levy cannot exceed 4%. Property taxes are levied October 1, and are due or payable before January 31 of the following year. For the period ending June 30, 2015, the tax rate was .226 cents per \$100 of assessed valuation of real property, .226 cents per \$100 assessed valuation of personal property, and .226 cents per \$100 of assessed valuation of tangible property. City property tax revenues are recognized as revenue basically when billed.

Note 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	
Primary Government				
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 38,775	\$ -	\$ -	\$ 38,775
Construction In Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	<u>38,775</u>	<u>-</u>	<u>-</u>	<u>38,775</u>
Capital Assets, Being Depreciated:				
Buildings	563,722	-	-	563,722
Equipment	489,545	16,004	-	505,549
Vehicles	316,676	20,312	-	336,988
Infrastructure	2,810,587	-	-	2,810,587
Total Capital Assets Being Depreciated	<u>4,180,530</u>	<u>36,316</u>	<u>-</u>	<u>4,216,846</u>
Less Accumulated Depreciation For:				
Buildings	(173,308)	(10,641)	-	(183,949)
Equipment	(283,665)	(36,086)	-	(319,751)
Vehicles	(247,022)	(9,966)	-	(256,988)
Infrastructure	(1,839,769)	(50,236)	-	(1,890,005)
Total Accumulated Depreciation	<u>(2,543,764)</u>	<u>(106,929)</u>	<u>-</u>	<u>(2,650,693)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,636,766</u>	<u>(70,613)</u>	<u>-</u>	<u>1,566,153</u>
Governmental Activities Capital, Assets, Net	<u>\$ 1,675,541</u>	<u>\$ (70,613)</u>	<u>\$ -</u>	<u>\$ 1,604,928</u>

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

Governmental Activities:

General Government	68,403
Protection to Persons and Property	25,719
Public Works including Infrastructure	<u>12,807</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 106,929</u>

Capital asset activity for business-type activities for the year ended June 30, 2015 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business - Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 46,188	\$ -	\$ -	\$ 46,188
Total Capital Assets Not Being Depreciated	46,188	-	-	46,188
Capital Assets Being Depreciated:				
Plant and Equipment	5,810,218	28,561	-	5,838,779
Total Capital Assets Being Depreciated	5,810,218	28,561	-	5,838,779
Less Accumulated Depreciation For:				
Plant and Equipment	(2,644,618)	(178,368)	-	(2,822,986)
Total Accumulated Depreciation	(2,644,618)	(178,368)	-	(2,822,986)
Total Capital Assets, Being Depreciated, Net	3,165,600	(149,807)	-	3,015,793
Business-Type Activities Capital Assets, Net	<u>\$ 3,211,788</u>	<u>\$ (149,807)</u>	<u>\$ -</u>	<u>\$ 3,061,981</u>

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

<u>Business-type Activities:</u>	
Electric System	\$ 55,741
Gas System	16,031
Water & Sewer System	106,596
Total Depreciation Expense-Business-type Activities	<u>\$ 178,368</u>

Note 5. LONG-TERM DEBT

A. Long-Term Debt

Business-Type Activities

Note Payable-Citizens Bank-2009 Bucket Truck

On November 16, 2009, the City entered into a note agreement with Citizens Deposit Bank in the amount of \$109,225. The purpose of the note was for cost of a bucket truck. The rate of interest on this note agreement is 5.0%. As of June 30, 2015 the balance due was \$50,190. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	8,536	2,399
2017	8,941	1,994
2018	9,356	1,579
2019	9,772	1,163
2020-2021	13,585	995
Totals	<u>\$ 50,190</u>	<u>\$ 8,130</u>

Note Payable-Citizens Bank-Line of Credit

On October 30, 2012 the City entered into an original note agreement with Citizens Deposit Bank for the amount of \$46,122. The purpose of this loan was for operating expenses. Rate of interest on this loan agreement is 3.95%. Management plans to renew the Line of Credit on a yearly basis until the note can be retired. The remaining balance currently for the Line of Credit as of June 30, 2015 is \$42,343 with one principal and interest payment due October 2016.

Note Payable-Citizens Bank-Line of Credit

On July 2, 2010 the City entered into an original note agreement with Citizens Deposit Bank for the amount of \$100,400. The purpose of this loan was for operating expenses. Rate of interest on this loan agreement is 3.65%. Management plans to renew the Line of Credit on a yearly basis until the note can be retired. The remaining balance currently for the Line of Credit as of June 30, 2015 is \$70,184 with one principal and interest payment due November 2016.

Note Payable-Citizens Bank-Waste Water System

In January of 2011, the City used their certificates of deposit to pay down on the water and wastewater notes payable at Citizens Deposit Bank and reissue a new note. This note is secured by certificates of deposit. Rate of interest on this loan agreement is 4.95%. Original balance of the note was \$131,553. As of June 30, 2015 the balance due was \$102,113. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2016	7,578	4,863
2017	7,739	4,703
2018	7,989	4,453
2019	8,289	4,153
2020-2028	70,518	11,560
Totals	\$ 102,113	\$ 29,732

Note Payable-Citizens Bank-2008 Bucket Truck

On December 22, 2008, the City entered a note agreement with Citizens Deposit Bank in the amount of \$112,633. The purpose of the note was for cost of a bucket truck. Principal and interest payments are due monthly for 83 months. The rate of interest on this note agreement is 5.5%. As of June 30, 2015, the balance due was \$10,078. Principal and interest payments are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2016	10,078	1,252
2017	-	-
2018	-	-
2019	-	-
Totals	10,078	1,252

Capital Lease-John Deere Financial

On August 15, 2011 the City of Bardwell entered into a lease agreement with John Deere Financial in the amount of \$80,845. The purpose of the lease was for a John Deere Backhoe. The rate of interest on this lease agreement is 3.55%. As of June 30, 2015, the balance due was \$58,292. The City is to make 61 monthly payments of \$692 and a final payment of \$51,026 over the term of the lease.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2016	6,876	1,428
2017	51,416	302
Total	\$ 58,292	\$ 1,730

B. Changes in Long-Term Debt

Long-Term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Government Activities:</u>					
Note Payable-Citizens Bank	\$ -	\$ 20,312	\$ (591)	\$ 19,721	
Government Activities Long-Term Liabilities	<u>\$ -</u>	<u>\$ 20,312</u>	<u>\$ (591)</u>	<u>\$ 19,721</u>	
<u>Business-Type Activities:</u>					
Capital Lease-John Deere Fin.	\$ 63,907	\$ -	\$ (5,615)	\$ 58,292	\$ 6,875
Note Payable-Citizens Bank	59,818	-	(9,629)	50,189	-
Note Payable-Citizens Bank	46,372	250	(4,279)	42,343	42,343
Note Payable-Citizens Bank	69,934	250	-	70,184	70,184
Note Payable-Citizens Bank	109,422	-	(7,308)	102,114	7,578
Note Payable-Citizens Bank	27,738	-	(17,660)	10,078	-
Business-Type Activities Long-term Liabilities	<u>\$ 377,191</u>	<u>\$ 500</u>	<u>\$ (44,491)</u>	<u>\$ 333,200</u>	<u>\$ 126,980</u>

Note 6. INTEREST ON LONG-TERM DEBT

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

Note 7. EMPLOYEE RETIREMENT SYSTEM / PENSION PLAN

Plan Description

The City participates in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS covers all full-time and eligible part-time employees employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type / amount of service, participation date, and retirement date; and years of service. The information below summarizes the major retirement benefit provisions of CERS. For retirement and benefit purposes, employees are grouped into three tiers. The following summaries are not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement: Age 65, with at least one month of non-hazardous duty service credit.

Benefit Amount: For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.0% times final average compensation times years of service. For members whose participation began on or after August 1, 2004, the benefit factor is 2.2%.

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2004, the following provisions are in force:

Age and service requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit Amount: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit Amount: Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For all tiers, cost of living adjustments (COLA) are provided only if authorized by the Legislature and are at the discretion of the General Assembly. Please refer to the Summary Plan Description, available from KRS, for a complete description of all Plan benefits and provisions.

Contributions

Per Kentucky Revised Statutes Sections 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members, are required to contribute a percentage of their annual creditable compensation based on their benefit tier as follows:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for health insurance fund
Tier 3	5% + 1% for health insurance fund

Plan members in Tier 3 participate in and 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 five percent of their creditable compensation to their own account. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's creditable compensation. Each month an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City's actuarially determined contribution rate for the year ended June 30, 2015, was 17.67% of annual creditable compensation. Contributions to CERS by the City was basically \$60,000 for the year ended June 30, 2015.

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

At June 30, 2015, the City reported a liability of \$477,215 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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 contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was 0.014709%.

For the year ended June 30, 2015, the City recognized pension expenses of \$38,196. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ -	\$ 53,268
City contributions subsequent to the measurement date	60,000	-
Total	\$ 60,000	\$ 53,268

The \$60,000 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, 2016. 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,	
2016	\$ 13,317
2017	13,317
2018	13,317
2019	13,317
	\$ 53,268

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.5% average, including inflation
Investment rate of return	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

Discount rate: The discount rate used to measure the total pension liability was 7.75%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2116.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High-yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$627,984
Current discount rate	7.75%	\$477,215
1% increase	8.75%	\$344,608

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increase	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Changes in Assumptions and Benefit Terms

There were no changes in assumptions of benefit terms since the prior measurement date.

Changes Since Measurement Date

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At June 30, 2015, the City had a payable of \$6,241 for the outstanding amount of contributions due to CERS for the year.

Note 8. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which the District participates. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems. For member participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January1, 2013.

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

Note 9. INSURANCE

For the fiscal year ended June 30, 2015, City of Bardwell was a member of the Kentucky League of Cities Insurance Service. KLCIS is self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. RISK MANAGEMENT

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

Note 11. INTERFUND TRANSFERS

As of June 30, 2015, interfund transfers consist of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Electric Fund	<u>\$ 94,000</u>	<u>\$ 50,500</u>
Gas Fund	<u>\$ 17,000</u>	<u>\$ 161,500</u>
Water / Sewer Funds	<u>\$ 88,200</u>	<u>\$ 4,000</u>
General Fund	<u>\$ 82,050</u>	<u>\$ 65,250</u>

Note 12. BUDGETARY INFORMATION

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

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

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and becomes effective upon approval by the Council.

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

Note 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date these financial statements were available to be issued - February 16, 2016.

Note 14. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In fiscal year 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASBS No. 68), which amends or supersedes the accounting and financial reporting guidance for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts. The objective is to improve accounting and financial reporting for pensions by state and local governments.

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

In the government-wide financial statements, the implementation of GASBS No. 68 resulted in a reduction of beginning net position of \$492,287. Accordingly, net position at June 30, 2014 previously reported at \$4,895,773 has been restated as \$4,403,486 to reflect this change. Government-wide deferred outflows and inflows related to GASBS No. 68 are disclosed in Note 7 to financial statements. The City had no liability, or deferred outflows or inflows of resources, relating to pensions in the governmental fund financial statements.

**SUPPLEMENTARY
INFORMATION**

CITY OF BARDWELL
BUDGETARY COMPARISON SCHEDULE
Required Supplementary Information
For The Year Ended June 30, 2015

	GENERAL FUND			
	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 249,850	\$ 249,850	\$ 251,774	\$ 1,924
Licenses and Permits	3,000	3,000	1,275	(1,725)
Intergovernmental Revenues	185,350	185,350	33,960	(151,390)
Charges for Services	2,000	2,000	800	(1,200)
Miscellaneous	19,600	19,600	15,437	(4,163)
Interest	1,000	1,000	3	(997)
Total Revenues	<u>460,800</u>	<u>460,800</u>	<u>303,249</u>	<u>(157,551)</u>
EXPENDITURES				
General government	338,867	338,867	123,807	215,060
Protection to Persons and Property	84,055	84,055	88,566	(4,511)
Public Works	80,624	80,624	61,104	19,520
Debt Service	20,000	20,000	19,682	318
Total Expenditures	<u>523,546</u>	<u>523,546</u>	<u>293,159</u>	<u>230,387</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(62,746)</u>	<u>(62,746)</u>	<u>10,090</u>	<u>72,836</u>
OTHER FINANCING SOURCES (USES)				
Transfer To Other Funds	(25,000)	(25,000)	(65,250)	(40,250)
Transfers From Other Funds	68,000	68,000	82,050	14,050
Total Other Financing Sources (Uses)	<u>43,000</u>	<u>43,000</u>	<u>16,800</u>	<u>(26,200)</u>
Net Changes in Fund Balance	(19,746)	(19,746)	26,890	46,636
Fund Balance – Beginning	<u>-</u>	<u>-</u>	<u>12,061</u>	<u>12,061</u>
Fund Balance - Ending	<u>\$ (19,746)</u>	<u>\$ (19,746)</u>	<u>\$ 38,951</u>	<u>\$ 58,697</u>

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

CITY OF BARDWELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

BUDGETARY INFORMATION

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

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

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

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

Last 10 Fiscal Years *

	2015
City's proportion of the net pension liability	0.014709%
City's proportionate share of the net pension liability	\$477,215
City's covered-employee payroll	\$337,441
City's proportionate share of the net pension liability as a percentage of it covered employee payroll	141.42%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end. Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

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

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

Last 10 Fiscal Years *

	2015	2014
Contractually required contributions	60,000	63,743
Contributions in relation to the contractually required contributions	(60,000)	(63,743)
Contribution (excess) deficiency	\$ -0-	\$ -0-
City's covered-employee payroll	339,558	337,441
Contributions as a percentage of covered-employee payroll	17.67%	18.89%

* Presented for those years for which the information is available.

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

CITY OF BARDWELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

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

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions: There were no changes in assumptions.

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

CITY OF BARDWELL
DETAILED STATEMENT OF EXPENDITURES
SUPPLEMENTARY INFORMATION
GOVERNMENTAL FUND
For The Year Ended June 30, 2015

	General Administrative	Public Work	Public Safety Fire	Police	Total Public Safety	Total Government Activities
Salaries	\$ 19,904	\$ 37,678	\$ -	\$ 43,737	\$ 43,737	\$ 101,319
Payroll taxes	734	2,724	-	3,144	3,144	6,602
Retirement	-	6,656	-	6,481	6,481	13,137
Health & Life insurance	351	-	-	-	-	351
Telephone	1,647	-	202	1,085	1,287	2,934
Postage	146	-	-	-	-	146
Professional fees	1,000	-	-	-	-	1,000
Tax bill preparation	923	-	-	-	-	923
Legal services	10,168	-	-	-	-	10,168
Advertising	748	-	-	-	-	748
Offices supplies & equipment	18,720	-	-	-	-	18,720
Software support	1,950	-	-	-	-	1,950
Professional dues	400	-	-	-	-	400
Community projects	150	-	-	-	-	150
Insurance and bonds	21,218	-	-	-	-	21,218
Travel and entertaining	12,943	-	48	-	48	12,991
Building maintenance	6,060	-	-	-	-	6,060
Miscellaneous	26,650	-	620	629	1,249	27,899
City clean up	95	-	-	-	-	95
Uniforms	-	-	1,210	96	1,306	1,306
Fuel	-	5,965	515	1,760	2,275	8,240
Equipment & vehicle maint.	-	3,076	290	2,729	3,019	6,095
Education	-	-	4,389	-	4,389	4,389
Supplies	-	5,005	20,116	1,515	21,631	26,636
Capital expenditures	-	-	-	-	-	-
Street maintenance	-	-	-	-	-	-
Total Expenses	<u>123,807</u>	<u>61,104</u>	<u>27,390</u>	<u>61,176</u>	<u>88,566</u>	<u>273,477</u>
Debt service	-	6,852	12,830	-	12,830	19,682
Transfers out	65,250	-	-	-	-	65,250
Total Expenses and Transfers	<u>\$ 189,057</u>	<u>\$ 67,956</u>	<u>\$ 40,220</u>	<u>\$ 61,176</u>	<u>\$ 101,396</u>	<u>\$ 358,409</u>

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

**ADDITIONAL
INFORMATION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardwell, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Bardwell, Kentucky's basic financial statements and have issued our report thereon dated February 16, 2016.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. [2015-1 and 2015-2]

Compliance and Other Matters

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

City of Bardwell, Kentucky's Response to Findings

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

Purpose of this Report

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

Reed & Co. of Mayfield, PSC
Certified Public Accountants
Mayfield, Kentucky
February 16, 2016

CITY OF BARDWELL, KENTUCKY
SCHEDULE OF FINDING(S)
For the Year Ended June 30, 2015

FINDING(S) - FINANCIAL STATEMENT AUDIT

2015-1 - Lack of Segregation of Duties

Statement of Condition:

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

Criteria:

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

Effect:

The staff size of the City of Bardwell, Kentucky, limits the ability to rotate duties and implement certain checking procedures. This limitation may affect the City's ability to record, process, summarize and report financial data consistent with management's authorization. The possibility of the City's funds being misappropriated by a single employee is increased.

Recommendation:

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

Management's Response:

We concur with the recommendation.

2015-2 - Financial Reporting

Statement of Condition:

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

Criteria:

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

Effect:

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

Recommendation:

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

Management's Response:

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