

CITY OF CAMPBELLSVILLE, KENTUCKY

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor,
City Council and City Clerk of
City of Campbellsville, 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 City of Campbellsville, Kentucky (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. 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 Campbellsville, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the City's proportionate share of net pension liability schedules, and the schedules of pension contributions on pages 3 through 9 and pages 36 through 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 States of America, which consist of inquiries 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 obtained during our audit of 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The additional information shown on pages 44 through 45 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedules of Expenditures of Federal Awards and Notes to Schedule Expenditures of Federal Awards on pages 46 through 37 are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are also not a required part of the basic financial statements of the City.

The additional information shown on pages 44 through 45 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards accepted in the United States of America. In our opinion, the information found on pages 44 through 45, and the Schedule of Expenditures of Federal Awards 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*, we have also issued our report dated February 1, 2018 on our consideration of the City of Campbellsville, 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 the 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 Campbellsville, Kentucky's internal control over financial reporting and compliance.

Wise, Buckner, Spowles & Associates, PLLC

Wise, Buckner, Spowles & Associates, PLLC
Certified Public Accountants

Campbellsville, Kentucky
February 1, 2018

CITY OF CAMPBELLSVILLE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2017

The discussion and analysis of the City of Campbellsville's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the fiscal year ending June 30, 2017 by \$30.31 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Campbellsville's basic financial statements. The City of Campbellsville's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Campbellsville's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City of Campbellsville's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Campbellsville is improving or deteriorating. The Statement of Net position combines and consolidates governmental funds' current financial resources (short-term resources available for spending) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the Statement of Net position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities—Most of the City's basic services are reported here, including the police, fire, rescue, planning and development, parks and recreation, and general administration. Property taxes, occupational tax and insurance premiums, provides revenue for most of these activities.

Business type Activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds—governmental and proprietary—utilize different accounting approaches.

Governmental funds—The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term financing decisions. The relationships or difference between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Campbellsville maintains three individual governmental funds. They are all combined in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

Proprietary funds—The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparative information for the general fund.

THE CITY AS A WHOLE—Government-wide Financial Analysis

The City's combined net position was \$30.31 million as of June 30, 2017 as compared to \$27.48 million at June 30, 2016. Prior year net position for the Governmental Activities was restated as of June 30, 2016 at \$122,181. This was an increase in net position of \$362,914 due to a correction of an error increasing accounts receivable – medic runs. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net position is \$30.04 million. This analysis focuses on the net position and changes in general revenues and significant expenses of the City's governmental and business-type activities.

The largest component of the City's net position (108 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Total restricted assets are (6,235,462), the largest component (8,914,966) related to the pension liabilities of the City.

Summary of Net Position
June 30, 2017

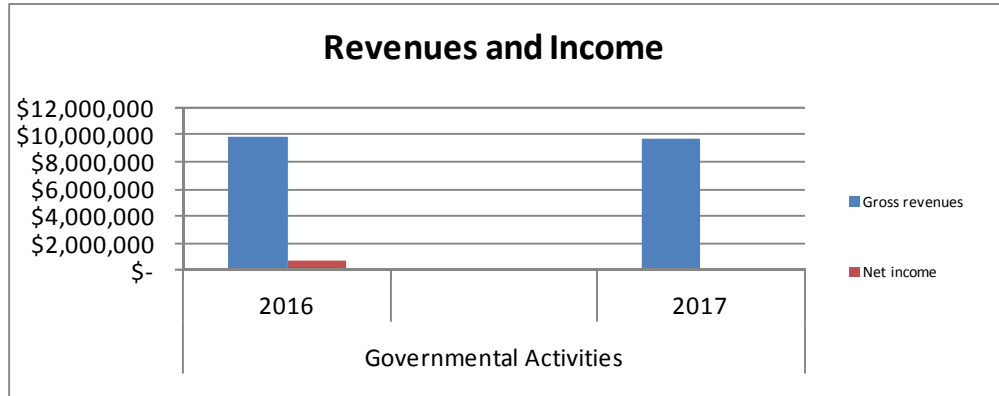
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and Other Assets	\$ 3,064,336	\$ 2,207,849	\$ 4,668,359	\$ 4,052,343	\$ 7,732,695	\$ 6,260,192
Capital Assets	6,461,488	6,100,224	39,563,460	31,855,758	46,024,948	37,955,982
Total Assets	9,525,824	8,308,073	44,231,819	35,908,101	53,757,643	44,216,174
Deferred Outflows of Resources	2,340,552	585,123	460,541	235,965	2,801,093	-
Total Deferred Outflows	2,340,552	585,123	460,541	235,965	2,801,093	-
Liabilities:						
Long-term Liabilities	10,535,652	9,304,044	13,402,096	7,711,232	23,937,748	17,015,276
Other Liabilities	703,659	687,629	1,367,610	872,573	2,071,269	1,560,202
Total Liabilities	11,239,311	9,991,673	14,769,706	8,583,805	26,009,017	18,575,478
Deferred Inflow of Resources	357,300	375,000	130,294	196,000	20,759	571,000
Total Deferred Inflows	357,300	375,000	130,294	196,000	20,759	571,000
Net Position:						
Invested in Capital Assets						
Net of Related Debt	4,482,350	4,569,377	28,385,908	25,842,167	32,868,258	30,411,544
Restricted	(6,832,132)	-	596,670	2,700,991	(6,235,462)	2,700,991
Unrestricted	2,619,547	(4,447,196)	1,058,366	(1,178,897)	3,677,913	(5,626,093)
Total Net Position	\$ 269,765	\$ 122,181	\$ 30,040,944	\$ 27,364,261	\$ 30,310,709	\$ 27,486,442

Governmental Activities

The City's general revenues increased by \$345,143 compared to the prior year. The majority of the increase is due to an increase in collected taxes. The following table is a detail of general revenues.

	2017	2016	Increase/ (Decrease)
Taxes	\$ 5,547,746	\$ 5,253,170	\$ 294,576
Franchise fees and Permits	486,054	475,785	10,269
Other Income/(Expense)	291,541	251,243	40,298
Total General Revenue	\$ 6,325,341	\$ 5,980,198	\$ 345,143

The following chart shows the Governmental Activities gross revenues as compared to net income for the years June 30, 2017 and 2016.

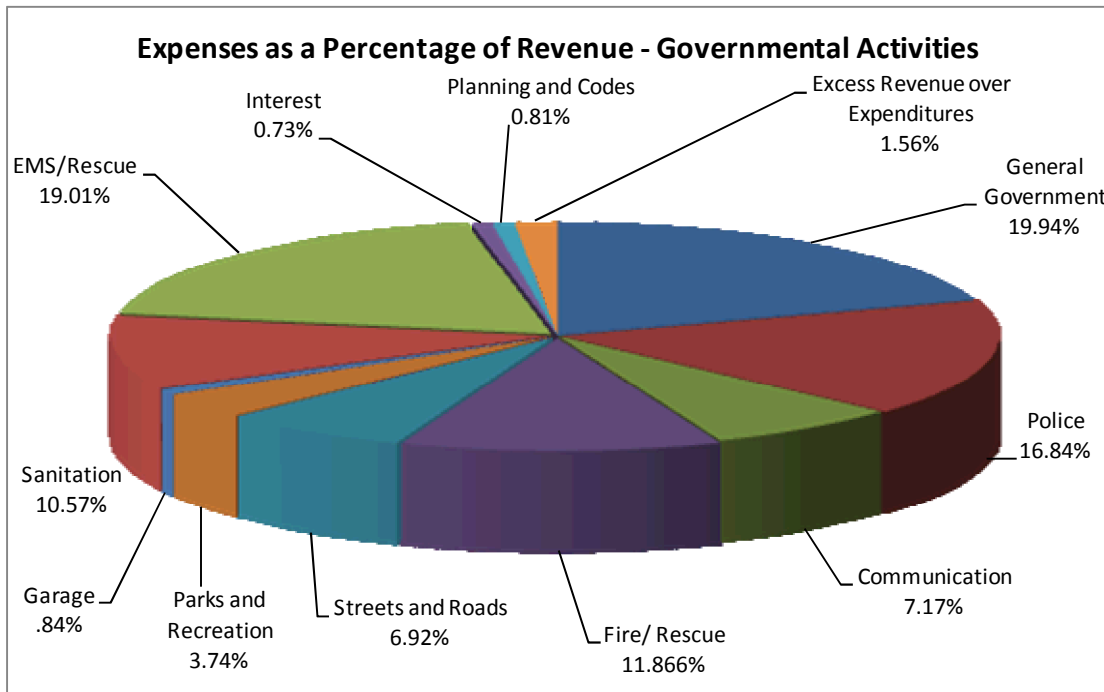


Governmental and Business type activities increased the City's net position by \$73 thousand. The key elements of this increase are as follows:

REVENUES	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for Services	\$ 2,631,675	\$ 2,966,817	\$ 5,505,806	\$ 5,362,660	\$ 8,137,481	\$ 8,329,477
Operating Grants and Contributions	1,098,400	1,108,281	0	-	1,098,400	1,108,281
Capital Grants and Contributions	313,938	434,638	2,109,735	1,116,144	2,423,673	1,550,782
General Revenues						
Taxes	5,547,746	5,253,171	-	-	5,547,746	5,253,171
Franchise Fees/Permits	486,054	475,785	-	-	486,054	475,785
Other Income	232,021	394,028	37,701	33,807	269,722	427,835
TOTAL REVENUES	10,309,834	10,632,720	7,653,242	6,512,611	17,963,076	17,145,331
EXPENSES						
General Government	2,067,234	1,730,488	-	-	2,067,234	1,730,488
Police	1,746,262	2,310,962	-	-	1,746,262	2,310,962
Communication	742,974	789,558	-	-	742,974	789,558
Fire / Rescue	1,230,265	1,472,311	-	-	1,230,265	1,472,311
EMS/Rescue	1,970,880	2,160,533	-	-	1,970,880	2,160,533
Streets and Roads	717,982	734,600	-	-	717,982	734,600
Planning and Codes	84,362	83,446	-	-	84,362	83,446
Recreation and Parks	388,247	478,800	-	-	388,247	478,800
Garage	87,175	95,776	-	-	87,175	-
Sanitation and Landfill	1,095,958	1,131,305	-	-	1,095,958	1,131,305
Interest	90,431	53,589	204,997	139,913	295,428	193,502
Water and Sewer	-	-	4,357,071	4,399,027	4,357,071	4,399,027
Depreciation	-	-	1,195,923	1,129,120	1,195,923	1,129,120
TOTAL EXPENSES	10,221,770	11,041,368	5,757,991	5,668,060	15,979,761	16,709,428
Increase in net assets before transfers	88,064	(408,648)	1,895,251	844,551	1,983,315	435,903
Transfers	59,520	3,599	(59,520)	(3,599)	-	-
Increase in Net Position	147,584	(405,049)	1,835,731	840,952	1,983,315	435,903
Net Position, July 1, restated	122,181	527,230	28,205,213	27,364,261	28,327,394	27,891,491
Net Position, June 30	\$ 269,765	\$ 122,181	\$30,040,944	\$28,205,213	\$30,310,709	\$28,327,394

The most significant governmental expenses for the City was in providing for public safety, which incurred expenses of \$5.69 million. These expenses were offset by revenues collected from a variety of sources, with the largest being from medic runs, which are \$1.51 million for the fiscal year ending June 30, 2017. The major components of public safety are police, communications, fire/rescue and EMS. Police accounted for \$1.75 million in public safety expense of which \$1.67 million was incurred for salary and benefits. Fire/rescue accounted for \$1.2 million in public safety expense, of which \$768,064 was incurred for salary and benefits. EMS accounted for \$1.97 million in public safety expense of which \$1.48 million was for salary and benefits. Communications accounted for \$743,000 in public safety expenses of which \$544,543 was for salary and benefits.

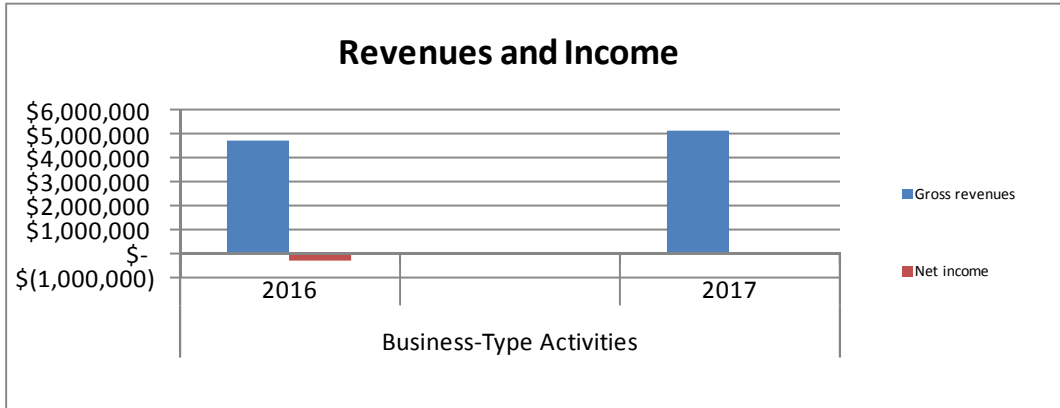
The following pie chart shows the Governmental Activities expenses as a percentage of revenue.



Business-type Activities

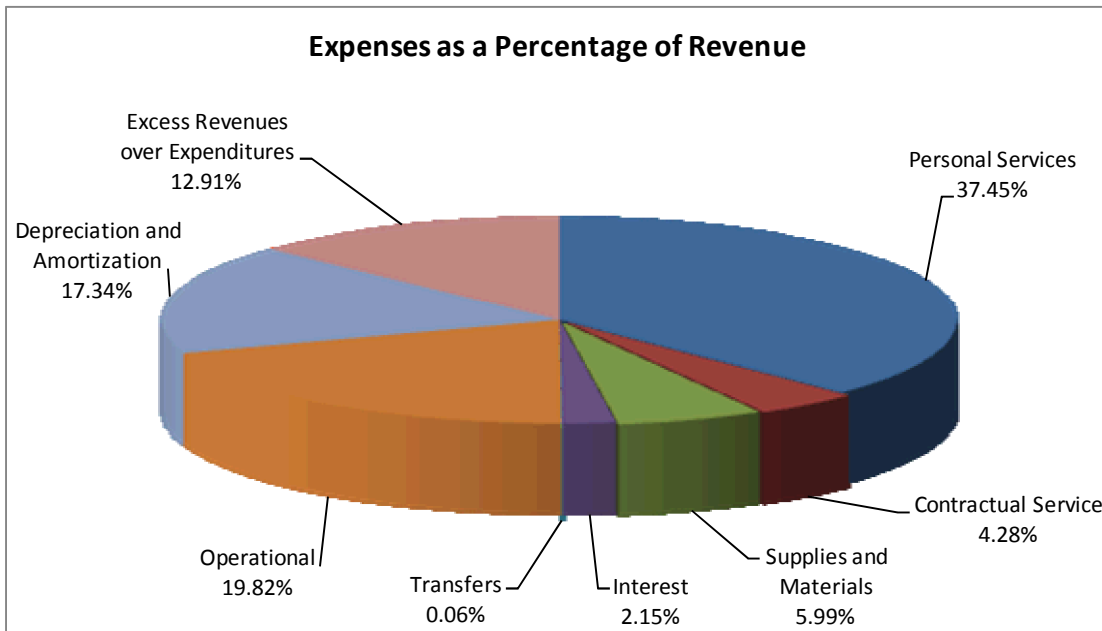
Operating revenues of the City's business-type activities were \$5.51 million for the fiscal year ending June 30, 2017. Operating expenses for the City's business-type activities were \$5.56 million for the year, resulting in net operating expenses over revenues of \$47,188 before non-operating revenues and expenses, capital contributions, grants and extraordinary income.

The following graph shows the business-type activities gross revenues as compared to net income for the years ended June 30, 2017 and 2016.



The City's water and sewer system's most significant expenses were \$2.25 million in salaries and benefits.

The following pie chart shows the Water Company's expenses as a percentage of Revenue.



General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$.5 million, of which \$.4 million represents occupational tax revenue.

Expenditures exceeded budget by \$.33 million. Of this, general government expenses were \$.58 million lower than budget, Fire/Rescue expenses exceeded budget by \$.57 million and Sanitation and Landfill expenses exceeded budget by \$.27 million. Excess expenses over budget are primarily due to capital lease purchases recorded by the Fire/Rescue and Sanitation Departments.

The city budget included a \$.98 million contingency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2017, the City had \$32,868,258 net invested in a broad range of capital assets, as compared to \$30,745,028 in fiscal year 2016, including police, fire and rescue equipment, buildings, park facilities, and water and sewer lines.

Debt

At year-end, the City had \$13,156,692 in General Obligation Bonds, Notes and Capital Lease Obligations outstanding as compared to \$9,312,407 at June 30, 2016.

CURRENT ECONOMIC EVENTS

Currently, there is an increase of .49% for the City's hazardous retirement contribution match requirement and a .5% increase in the city's non-hazardous retirement contribution requirement compared to the fiscal year ended June 30, 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mayor, Tony Young, at the City of Campbellsville, 110 South Columbia, Suite B, Campbellsville, KY 42718 or phone (270) 465-7011.

CITY OF CAMPBELLSVILLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,389,642	\$ 741,840	\$ 2,131,482
Accounts receivable, net of allowance	1,554,718	751,635	2,306,353
Other	105,633	256,159	361,792
Inventory	-	239,191	239,191
Restricted assets			
Cash and cash equivalents	14,343	2,679,534	2,693,877
Total current assets	3,064,336	4,668,359	7,732,695
Noncurrent assets:			
Land and construction in progress	2,597,810	7,754,856	10,352,666
Other capital assets, net of depreciation	3,863,678	31,808,604	35,672,282
Total noncurrent assets	6,461,488	39,563,460	46,024,948
Total assets	9,525,824	44,231,819	53,757,643
Deferred outflows of resources			
CERS	1,676,071	515,488	2,191,559
Pension Contributions	664,481	193,637	858,118
Total deferred outflows of resources	2,340,552	709,125	3,049,677

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business Type Activities	Total
Liabilities:			
Current liabilities:			
Accounts payable - trade	\$ 121,685	\$ 330,252	\$ 451,937
Accounts payable from restricted assets	14,343	-	14,343
Accrued payroll and related expenses	308,761	99,246	408,007
Customer deposits	-	147,187	147,187
Interest payable	-	54,585	54,585
Current portion of capital leases	193,979	-	193,979
Current portion of notes payable	64,891	436,927	501,818
Current portion of bonds payable	-	240,400	240,400
Current portion of compensated absences	-	59,013	59,013
Total current liabilities	<u>703,659</u>	<u>1,367,610</u>	<u>2,071,269</u>
Noncurrent liabilities:			
Noncurrent portion of capital leases	586,008	-	586,008
Noncurrent portion of notes payable	1,134,260	6,774,427	7,908,687
Noncurrent portion of bonds payable	-	3,725,800	3,725,800
Noncurrent portion of compensated absences	-	240,174	240,174
Net pension liability	<u>8,815,384</u>	<u>2,661,695</u>	<u>11,477,079</u>
Total noncurrent liabilities	<u>10,535,652</u>	<u>13,402,096</u>	<u>23,937,748</u>
Total liabilities	<u>11,239,311</u>	<u>14,769,706</u>	<u>26,009,017</u>
Deferred inflows of resources			
CERS	<u>357,300</u>	<u>130,294</u>	<u>487,594</u>
Net position:			
Net investment in capital assets	4,482,350	28,385,908	32,868,258
Restricted for:			
Debt service	-	2,670,589	2,670,589
Employee benefits	-	8,945	8,945
Pension	(6,832,132)	(2,082,864)	(8,914,996)
Unrestricted	<u>2,619,547</u>	<u>1,058,366</u>	<u>3,677,913</u>
Total net position	<u>\$ 269,765</u>	<u>\$30,040,944</u>	<u>\$30,310,709</u>

See accompanying notes to financial statements.

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

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
	Expense	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General government	\$ 2,067,234	\$ 5,954	\$ 276,878	\$ 283,136	\$ (1,501,266)	\$ -	\$ (1,501,266)
Public safety:							
Police	1,746,262	5,400	117,365	-	(1,623,497)	-	(1,623,497)
Communication	742,974	-	-	-	(742,974)	-	(742,974)
Fire/ rescue	1,230,265	2,919	51,458	30,802	(1,145,086)	-	(1,145,086)
EMS	1,970,880	1,512,657	474,885	-	16,662	-	16,662
Streets and roads	717,982	-	-	-	(717,982)	-	(717,982)
Planning and codes	84,362	-	-	-	(84,362)	-	(84,362)
Recreation and parks	388,247	27,897	177,814	-	(182,536)	-	(182,536)
Garage	87,175	-	-	-	(87,175)	-	(87,175)
Sanitation and landfill	1,095,958	1,076,848	-	-	(19,110)	-	(19,110)
Interest on long-term debt	90,431	-	-	-	(90,431)	-	(90,431)
Total governmental activities	10,221,770	2,631,675	1,098,400	313,938	(6,177,757)	-	(6,177,757)
Business-type activities							
Water	4,102,000	4,203,399	-	2,098,035	-	2,199,434	2,199,434
Sewer	1,655,991	1,302,407	-	11,700	-	(341,884)	(341,884)
Total business-type activities	5,757,991	5,505,806	-	2,109,735	-	1,857,550	1,857,550
Total government	\$ 15,979,761	\$ 8,137,481	\$ 1,098,400	\$ 2,423,673	(6,177,757)	1,857,550	(4,320,207)
General Revenues							
Taxes:							
Property taxes					1,221,179	-	1,221,179
Occupational					2,915,049	-	2,915,049
Insurance premium					1,411,518	-	1,411,518
Franchise fees/permits					486,054	-	486,054
Investment earnings					-	36,995	36,995
Gain (loss) on sale of assets					11,536	706	12,242
Other income					220,485	-	220,485
Transfers, net					59,520	(59,520)	-
Total General Revenue and Special Items					6,325,341	(21,819)	6,303,522
Change in Net Position					147,584	1,835,731	1,983,315
Net Position - Beginning, Restated					122,181	28,205,213	28,327,394
Net Position - Ending					\$ 269,765	\$ 30,040,944	\$ 30,310,709

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General	Special Revenue	Totals - Memorandum Only June 30, 2017
Assets and resources:			
Cash and cash equivalents	\$ 1,389,642	\$ -	\$ 1,389,642
Receivables (net of allowances)			
Accounts, general	1,554,718	-	1,554,718
State of Kentucky	7,324	-	7,324
Other	93,545	4,764	98,309
Interfund receivable	4,764	-	4,764
Restricted cash	14,343	-	14,343
Total assets and resources	\$ 3,064,336	\$ 4,764	\$ 3,069,100
Liabilities and fund balance:			
Accounts payable	\$ 121,685	\$ -	\$ 121,685
Interfund payable	-	4,764	4,764
Accrued payroll and related expenses	308,761	-	308,761
Accounts payable from restricted assets	14,343	-	14,343
Total liabilities	444,789	4,764	449,553
Fund balance			
Unassigned fund balance	2,619,547	-	2,619,547
Total fund balance	2,619,547	-	2,619,547
Total liabilities and fund balance	\$ 3,064,336	\$ 4,764	\$ 3,069,100

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balance per fund financial statements \$ 2,619,547

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resource, but they are reported in the statement of net position.

Capital Assets, Net	\$ 6,461,488	6,461,488
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Deferred outflows, deferred inflows and certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Deferred Outflows	2,340,552	
Deferred Inflows	(357,300)	
Net pension liability	(8,815,384)	
Long-Term Debt Payable	<u>(1,979,138)</u>	<u>(8,811,270)</u>

Net position for governmental activities	<u><u>\$ 269,765</u></u>
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CITY OF CAMPBELLSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended June 30, 2017

	Governmental Fund Types		Totals - Memorandum Only June 30,
	General	Special Revenue	2017
Revenues			
Taxes			
Occupational tax	\$ 2,915,049	\$ -	\$ 2,915,049
Property	1,221,179	-	1,221,179
Insurance premium	1,411,518	-	1,411,518
Franchise fees/permits	486,054	-	486,054
Intergovernmental revenues	1,077,300	313,938	1,391,238
Charges for services	2,631,675	-	2,631,675
Other Income	241,585	-	241,585
Total revenues	<u>9,984,360</u>	<u>313,938</u>	<u>10,298,298</u>
Expenditures			
General government	1,859,519	225,055	2,084,574
Public safety:			
Police	1,865,914	27,583	1,893,497
Communication	694,689	38,086	732,775
Fire/ rescue	1,556,242	13,214	1,569,456
Planning and codes	102,135	-	102,135
Streets and roads	777,637	-	777,637
Recreation and parks	440,850	-	440,850
Garage	84,453	-	84,453
Sanitation and landfill	1,273,182	-	1,273,182
EMS	1,873,388	10,000	1,883,388
Debt service			
Principal retirement	253,571	-	253,571
Interest and fiscal charges	76,150	-	76,150
Total expenditures	<u>10,857,730</u>	<u>313,938</u>	<u>11,171,668</u>
Excess revenues over (under) expenditures	(873,370)	-	(873,370)
Other financing sources (uses)			
Capital leases	764,596	-	764,596
Transfers in	59,520	-	59,520
Sale of fixed assets	12,569	-	12,569
Total other financing sources (uses)	<u>836,685</u>	<u>-</u>	<u>836,685</u>
Excess of revenues and other sources over (under) expenditures and other uses	(36,685)	-	(36,685)
Fund balances - beginning of year	<u>2,656,232</u>	<u>-</u>	<u>2,656,232</u>
Fund balances - end of year	<u>\$ 2,619,547</u>	<u>\$ -</u>	<u>\$ 2,619,547</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLVILLE, KENTUCKY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net change in total fund balances per fund financial statements \$ (36,685)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.

Depreciation Expense	\$ (756,235)	
Capital Outlays	<u>1,295,084</u>	538,849

The Proceeds from capital leases are not reported in this fund financial statement but they are presented as liabilities in the statement of net assets.

Proceeds from Long-Term Debt	(764,596)	(764,596)
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In the statement of activities the net gain on the sale/disposal of assets is reported, whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from the change in fund balances by the cost of the assets sold/disposed.

Actual Proceeds from Sale of Assets	(12,569)	
Gain/(Loss) on Sale/Disposal of Assets	<u>11,536</u>	(1,033)

Generally, expenditures in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Net pension liability	(782,990)	
Deferred outflows of resources	937,049	
Deferred inflows of resources	<u>17,700</u>	171,759

Debt service payments are recognized as expenditures of current financial resources in the governmental fund financial statement but are reductions of liabilities in the statement of net assets.

Note Payments	62,620	
Lease Payments	<u>176,670</u>	<u>239,290</u>

Change in net assets of governmental activities \$ 147,584

CITY OF CAMPBELLVILLE, KENTUCKY
 PROPRIETARY FUND
 CAMPBELLVILLE MUNICIPAL WATER AND SEWER SYSTEM
 STATEMENT OF NET POSITION
 June 30, 2017

Assets:	
Current assets:	
Cash and cash equivalents	\$ 741,840
Accounts receivable - trade (net of allowance)	751,635
Accounts receivable - other	256,159
Inventory	239,191
Restricted cash and cash equivalents	<u>2,679,534</u>
Total current assets	<u>4,668,359</u>
Noncurrent assets:	
Land and construction in progress	7,754,856
Capital assets net of accumulated depreciation	<u>31,808,604</u>
Total noncurrent assets	<u>39,563,460</u>
Total assets	<u>44,231,819</u>
Deferred outflows of resources:	
CERS	515,488
Pension contributions	<u>193,637</u>
Total deferred outflows of resources	709,125
Liabilities:	
Current liabilities:	
Accounts payable - trade	330,252
Accrued payroll and related expenses	99,246
Customer deposits	147,187
Accrued interest	54,585
Current portion of notes payable	436,927
Current portion of bonds payable	240,400
Current portion of compensated absences	<u>59,013</u>
Total current liabilities	<u>1,367,610</u>
Noncurrent liabilities:	
Noncurrent portion of notes payable	6,774,427
Noncurrent portion of bonds payable	3,725,800
Noncurrent portion of compensated absences	240,174
Net pension liability	<u>2,661,695</u>
Total noncurrent liabilities	<u>13,402,096</u>
Total liabilities	<u>14,769,706</u>
Deferred inflows of resources:	
CERS	<u>130,294</u>
Net position	
Net investment in capital assets	28,385,908
Restricted for:	
Debt service	2,670,589
Employee benefits	8,945
Pension	(2,082,864)
Unrestricted	<u>1,058,366</u>
Total net position	<u>\$ 30,040,944</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLVILLE, KENTUCKY
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN FUND NET POSITION - PROPRIETARY FUND
 For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 4,068,608	\$ 1,302,407	\$ 5,371,015
Service charges and other	134,791	-	134,791
Total operating revenues	<u>4,203,399</u>	<u>1,302,407</u>	<u>5,505,806</u>
Operating expenses:			
Personal service	1,561,288	685,081	2,246,369
Contractual service	258,321	194,338	452,659
Supplies and materials	302,549	77,432	379,981
Operational	924,661	353,401	1,278,062
Depreciation and amortization	850,184	345,739	1,195,923
Total operating expenses	<u>3,897,003</u>	<u>1,655,991</u>	<u>5,552,994</u>
Operating income (loss)	306,396	(353,584)	(47,188)
Non-operating revenues(expenses):			
Interest revenue	36,995	-	36,995
Interest expense and fiscal charges	(204,997)	-	(204,997)
Gain/(loss) on disposition of assets	706	-	706
Operating transfers out	(59,520)	-	(59,520)
Total non-operating revenue (expenses)	<u>(226,816)</u>	<u>-</u>	<u>(226,816)</u>
Net income (loss) before capital contributions and grants	79,580	(353,584)	(274,004)
Capital contributions	94,414	11,700	106,114
Grants	1,837,176	166,445	2,003,621
Total capital contributions and grants	<u>1,931,590</u>	<u>178,145</u>	<u>2,109,735</u>
Change in net position	2,011,170	(175,439)	1,835,731
Net position - beginning of year	<u>23,985,354</u>	<u>4,219,859</u>	<u>28,205,213</u>
Net position - end of year	<u>\$ 25,996,524</u>	<u>\$ 4,044,420</u>	<u>\$ 30,040,944</u>

See accompanying notes to financial statements.

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

Cash flows from operating activities:	
Cash received from customers	\$ 5,526,861
Cash payments to employees for services	(2,264,731)
Customer deposits received	77,100
Customer deposits returned	(68,970)
Cash payments to suppliers for goods and services	(1,981,136)
Net cash provided/(used) by operating activities	<u>1,289,124</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets and construction in progress	(6,646,589)
Grants received	1,747,462
Disposal of capital assets net of gain	21,675
Increase in debt	4,601,049
Principal paid on bonds and notes	(1,282,070)
Interest paid on debt	(192,500)
Contributed capital	106,114
Transfers	(59,520)
Net cash provided/(used) by capital and related financing activities	<u>(1,704,379)</u>
Cash flows from investing activities:	
Interest	<u>36,995</u>
Net cash provided/(used) by investing activities	36,995
Net increase/(decrease) in cash and cash equivalents	(378,260)
Cash and cash equivalents – beginning of year	<u>3,799,634</u>
Cash and cash equivalents – end of year	<u>\$ 3,421,374</u>
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents	\$ 741,840
Restricted cash and cash equivalents	2,679,534
Total cash and cash equivalents	<u>\$ 3,421,374</u>
Reconciliation of operating income (loss) to net cash provided/(used) for operating activities:	
Operating income (loss)	\$ (47,188)
Adjustments to reconcile operating income/(loss) to net cash provided/ (used) for operating activities:	
Depreciation and amortization	1,195,923
Change in Assets and Liabilities:	
(Increase)/decrease in accounts receivable	21,055
(Increase)/decrease in deferred outflows	(282,056)
(Increase)/decrease in inventory	(23,779)
Increase/(decrease) in accounts payable	153,346
Increase/(decrease) in salaries and accrued w/h taxes	4,019
Increase/(decrease) in compensated absences	27,408
Increase/(decrease) in customer deposits	8,130
Increase/(decrease) in net pension liability	219,572
Increase/(decrease) in deferred inflows	12,694
Total reconciling adjustments	<u>1,336,312</u>
Net cash provided/ (used) by operating activities	<u>\$ 1,289,124</u>

See accompanying notes to financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Campbellville, Kentucky operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police, fire and rescue), streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting policies and practices used by the City are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. For the most part, the effect of inter-fund activity has been removed from these statements. Certain eliminations have been made as prescribed by GASB Statement No 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. 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 Net Position presents the City's assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

None of the net position is restricted by enabling legislation.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements consist of a series of statements focusing on information about the City's major governmental and proprietary funds. Separate financial statements are provided for governmental funds, and proprietary funds.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 financial statements. Revenues are recognized when earned and expenses are recognized 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 recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Property taxes are recognized as revenue in the year for which they have been levied, provided they are collected within 60 days after year-end.

The City has the following governmental funds:

The *General Fund* is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the City.

The *Special Revenue Fund* account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specific purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 38. This is a major fund of the City.

The City has the following major proprietary funds:

Campbellsville Municipal Water and Sewer System

Enterprise Funds are used to account for operations (A) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds have elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements as well as statements and interpretations of the FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for 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 non-operating revenues and expenses.

Assets, Liabilities and Net Position

Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with an original maturity of three months or less from the date of acquisition. Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, federally insured savings accounts and certificates of deposits. Investments are carried at fair value. Deposits are carried at cost plus accrued interest. At June 30, 2017, the City has no investments.

Property Taxes - Property taxes are assessed on January 1 and levied on the subsequent November 1 for the fiscal year beginning on the levy date, at which time a lien is attached. These taxes are due and payable on November 1. All unpaid taxes levied November 1 become delinquent January 1 of the following year. Property tax is accounted for using the modified accrual basis of accounting.

Accounts Receivable and Unbilled Usage - Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Activity between funds outstanding at the end of the fiscal year is referred to as either "due to/from other funds" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements from other governments. Federal grant revenue is recognized when expenditures for the purpose of the grant have been incurred in the government-wide financial statements and as long as it meets the measurable and available criteria in the governmental fund statements.

Allowance for Doubtful Accounts – The Campbellsville Water & Sewer Company's valuation method of estimating the allowance for doubtful accounts is based upon a percentage (3%) of total sales. The allowance for doubtful accounts for the governmental funds is based upon historical experience in collecting medic run revenue. The allowance for doubtful accounts for Campbellsville Water and Sewer Company at June 30, 2017 was \$161,113. The allowance for doubtful accounts for the governmental funds at June 30, 2017 was \$27,087.

Inventories and Prepaid Items - Inventories of materials and supplies in the proprietary fund types are stated at cost (first-in, first-out). Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items.

Restricted Assets - Funds set aside for the payment of City enterprise revenue bonds are classified as restricted assets because their use is restricted by applicable bond indentures. Other restricted assets include funds for customer deposits restricted for application to unpaid customer accounts or for refund to customers. When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, and then restricted resources as they are needed.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. All land is reported regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City and its proprietary fund are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Improvements other than buildings	5-40
Equipment	5-20
Meters	10-20
Storm/sanitary sewer	30-75
System infrastructure	20-75

Compensated Absences - The Proprietary Fund (Campbellsville Water and Sewer) employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon termination, retirement, or death. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Water Company's past experience of making termination payments. The compensated absences liability, if any, has been computed based on rates of pay in effect as of June 30, 2017. The entire compensated absence liability is reported on the government-wide financial statements.

Long-Term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The Campbellsville Municipal Water and Sewer System provide the annual debt service requirements on certain water and sewer revenue bonds issued by the City on behalf of the system to finance system improvements. Since the Campbellsville Municipal Water and Sewer System provides the annual debt service the bonds are considered to be obligations of the Campbellsville Municipal Water and Sewer System and are payable from the sale of water and sewer service provided to customers of the system, and have been reported on the balance sheet of the Campbellsville Municipal Water and Sewer System.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fund Balance Reserves

Beginning with fiscal year 2011, the City implemented GASB Statement 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance- amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balances- amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance- amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance- amounts the City intends to use for specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balances- amounts that are available for any purpose; positive amounts are reported only in the General Fund

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City has provided otherwise in its commitment or assignment actions.

Statement of Cash Flows—Cash Equivalents - For purposes of the statement of cash flows for the proprietary funds, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase they have a maturity date no longer than three months.

NOTE 2: BUDGET AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The City of Campbellsville does not use encumbrance accounting.

Budgets were adopted for the following funds in accordance with generally accepted accounting principles (GAAP), compliance with federal and state programs and in accordance with the laws and regulations of the City:

General Fund
Special Revenue

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is included in the required supplemental information. Budget comparisons for the budgeted non-major funds are included in other supplemental information. The Community Development Block Grant Fund has been budgeted over the life of the projects and, therefore, their financial activity has been omitted from the budget statement.

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

NOTE 3: DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s policy is to have all deposits secured by pledged securities.

At June 30, 2017, the carrying amount of the City’s cash and cash equivalents (cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less) was \$1,403,985 while the bank statements totaled \$1,640,746. Of the total bank balances, \$558,950 was insured by FDIC; collateral agreements were executed and collateral, with a FMV of \$2,009,747, was pledged and held by the pledging bank’s trust departments in the City’s name for the purpose of securing the remainder of the deposits.

At June 30, 2017, the carry amount of the Water Company’s cash and cash equivalents was \$3,421,374, while the bank statements totaled \$3,784,140. Of the total bank balances, \$500,000 was insured by FDIC; collateral agreements were executed and collateral, with a FMV of \$3,375,835, was pledged and held by the pledging bank’s trust departments in the Water Company’s name and a \$1,000,000 letter of credit from Federal Home Loan Bank of Cincinnati to secure the remainder of the deposits.

Due to the nature of the accounts and certain limitations on the use of the funds, each bank account within the following funds is considered to be restricted.

A detail of the City’s restricted cash is reported as follows:

	<u>Business Type</u>	<u>Governmental</u>
Debt Reserve Account	\$ 1,716,207	\$ -
Construction Account	215,121	-
Depreciation Replacement Account	389,782	-
USDA Reserve	201,435	-
Customer Performance Deposit	118,518	-
Customer Escrow Security Deposit	29,466	-
Flexible Spending Account	3,610	11,069
HRA Insurance Account	5,334	3,274
North Bypass Sewer Account	1	-
Industrial Park area Water Tank Account	30	-
KIA Regional Water Systems Impr. Acct	30	-
	<u>\$ 2,679,534</u>	<u>\$ 14,343</u>

NOTE 4: CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets tangible in nature, with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. In the proprietary fund, a \$2,000 capitalization level is used for water and sewer line extensions. Assets are reported as historical cost or estimated historical cost of purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed.

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

NOTE 4: CAPITAL ASSETS – (CONTINUED)

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

	Balance at Beginning of Year	Transfers and Additions	Transfers and Deductions	Balance at End of Year
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 2,597,810	\$ 17,500	\$ -	\$ 2,615,310
Construction In Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>2,597,810</u>	<u>17,500</u>	<u>-</u>	<u>2,615,310</u>
Capital Assets Being Depreciated				
Buildings and Improvements	4,002,862	212,323	-	4,215,185
General Equipment and Vehicles	9,896,394	1,065,261	14,500	10,947,155
Total Capital Assets Being Depreciated	<u>13,899,256</u>	<u>1,277,584</u>	<u>14,500</u>	<u>15,162,340</u>
Less: Accumulated Depreciation				
Buildings and Improvements	3,086,110	117,303	-	3,203,413
General Equipment and Vehicles	7,487,284	638,932	13,467	8,112,749
Total Accumulated Depreciation	<u>10,573,394</u>	<u>756,235</u>	<u>13,467</u>	<u>11,316,162</u>
Total Capital Assets Being Depreciated, Net	<u>3,325,862</u>	<u>521,349</u>	<u>1,033</u>	<u>3,846,178</u>
Governmental Activities Capital Assets - Net	<u>\$ 5,923,672</u>	<u>\$ 538,849</u>	<u>\$ 1,033</u>	<u>\$ 6,461,488</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 758,368	\$ -	\$ -	\$ 758,368
Construction In Progress	1,238,685	5,761,168	3,365	6,996,488
Total Capital Assets, Not Being Depreciated	<u>1,997,053</u>	<u>5,761,168</u>	<u>3,365</u>	<u>7,754,856</u>
Capital Assets Being Depreciated				
Source of Supply	6,180,326	17,575	-	6,197,901
Buildings & Improvements	10,190,919	23,770	-	10,214,689
Machinery and Equipment	899,263	130,328	20,788	1,008,803
Water System	23,574,216	286,967	6,440	23,854,743
Sewer System	16,410,208	426,781	11,870	16,825,119
Total Capital Assets Being Depreciated	<u>57,254,932</u>	<u>885,421</u>	<u>39,098</u>	<u>58,101,255</u>
Less: Accumulated Depreciation				
Source of Supply	1,419,640	109,986	-	1,529,626
Buildings & Improvements	2,667,288	113,055	-	2,780,343
Machinery and Equipment	1,063,809	103,036	20,788	1,146,057
Water System	9,986,409	585,092	-	10,571,501
Sewer System	9,981,076	284,048	-	10,265,124
Total Accumulated Depreciation	<u>25,118,222</u>	<u>1,195,217</u>	<u>20,788</u>	<u>26,292,651</u>
Total Capital Assets Being Depreciated, Net	<u>32,136,710</u>	<u>(309,796)</u>	<u>18,310</u>	<u>31,808,604</u>
Business-Type Activities Capital Assets - Net	<u>\$ 34,133,763</u>	<u>\$ 5,451,372</u>	<u>\$ 21,675</u>	<u>\$ 39,563,460</u>

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

NOTE 5: OPERATING LEASES

As of June 30, 2017, the City had no operating leases.

NOTE 6: CAPITAL LEASES

The City has entered into agreements to lease various equipment and vehicles. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

The following schedule presents future minimum lease payments as of June 30, 2017.

Year Ending June 30:	
2018	\$ 193,979
2019	148,357
2020	138,062
2021	100,361
2022	63,044
Thereafter	<u>221,814</u>
Total minimum lease payments	865,617
Less: Interest	<u>(85,630)</u>
Present Value of future minimum lease payments	<u>\$ 779,987</u>

Amortization of leased equipment and vehicles under capital assets is included with depreciation expense.

NOTE 7: LONG-TERM DEBT

The revenue bonds of the enterprise funds are payable from operations of the Water and Sewer fund. The bonds mature annually in varying amounts through fiscal year 2054 and interest is payable semi-annually ranging from 2.25% to 5.25%. Debt balances and transactions for the year ended June 30, 2017 are as follows:

WATER COMPANY

Fiscal Year	Principal	Interest	Total
2018	\$ 240,400	\$ 118,159	\$ 358,559
2019	121,800	109,199	230,999
2020	128,200	105,583	233,783
2021	145,100	101,508	246,608
2022	146,000	97,076	243,076
2023-2027	755,800	418,024	1,173,824
2028-2032	603,000	307,271	910,271
2033-2037	360,800	246,194	606,994
2038-2042	427,100	187,613	614,713
2043-2047	449,300	104,873	554,173
2048-2052	380,700	54,062	434,762
2053-2057	208,000	10,535	218,535
	<u>\$3,966,200</u>	<u>\$1,860,097</u>	<u>\$ 5,826,297</u>

In the fiscal year ended June 30, 2017 the Campbellsville Water and Sewer Company completed the construction phase of the North Water Tank project which is being administered by the United States Department of Agriculture Rural Development. The project specified that the City is to use interim financing for the project until the construction phase is complete. Upon completion North Water Tank project was financed by a \$1,307,000 USDA note maturing January 1, 2055. Terms of the note require annual principal payments beginning January 1, 2018 with interest paid semi-annually @ 1.875%.

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

NOTE 7: LONG-TERM DEBT – (CONTINUED)

The Campbellsville Water and Sewer Company's Downtown Water Line Project is being funded with a loan administered by the Kentucky Infrastructure Authority. Exhibit A of the Project Specifics outlines the terms of financing up to \$1,218,750 to be paid with monthly installments including interest @ 1% beginning upon project completion. Interest is to be paid monthly on the financed amount until project completion upon which time the note will be set up on installments over twenty years. The balance of the loan at June 30, 2017 is \$1,163,405.

Campbellsville Water and Sewer project to construct a one million gallon water storage tank, 40,000 linear feet of 12-inch transmission water main, and a 700 gallon water per minute booster pump station enabling the City of Campbellsville to sell potable water to the City of Lebanon is being financed by a 20 year loan with interest @ .75% from the Kentucky Infrastructure Authority. Terms of the loan state that interest payments to commence within six months from the first draw of funds (estimated 12/01/16) and full principal and interest payments will commence within one year of initiation of operation (originally estimated 06/01/18). The balance of the loan at June 30, 2017 is \$3,294,049.

As of June 30, 2017, annual debt service requirements for the Enterprise Fund (Campbellsville Water and Sewer) activity loans to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 436,927	\$ 75,397	\$ 512,324
2019	423,974	79,721	503,695
2020	430,237	73,451	503,688
2021	344,058	67,956	412,014
2022	318,040	64,103	382,143
2023-2027	1,646,780	264,969	1,911,749
2028-3032	1,415,647	176,237	1,591,884
2033-3037	1,282,560	112,892	1,395,452
2038-3042	281,131	70,059	351,190
2043-3047	213,000	51,552	264,552
2048-3052	250,000	30,206	280,206
2053-2057	169,000	6,401	175,401
	<u>\$7,211,354</u>	<u>\$1,072,944</u>	<u>\$ 8,284,298</u>

In December 2011, the City purchased approximately 180 acres of what was formerly known as the Dowell property and financed the purchase with a 240 month commercial installment note dated December 21, 2011 with Taylor County Bank for \$1,500,000. Monthly payments are \$8,866.54 a month including a current interest rate of 3.5%. The balance of the loan at June 30, 2017 is \$1,199,151.

As of June 30, 2017, annual debt service requirements for the governmental activity loans to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 64,891	\$ 41,508	\$ 106,399
2019	67,232	39,167	106,399
2020	69,557	36,842	106,399
2021	72,166	34,233	106,399
2022	74,769	31,630	106,399
2023-2027	416,216	115,779	531,995
2028-2032	434,320	35,607	469,927
	<u>\$1,199,151</u>	<u>\$ 334,766</u>	<u>\$ 1,533,917</u>

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

NOTE 7: LONG-TERM DEBT - (CONTINUED)

Long-term liabilities for the year ended June 30, 2017 was as follows:

	Beginning Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amount Due Within One Year
Governmental Activities:					
Notes Payable	\$ 1,261,771	\$ -	\$ 62,620	\$ 1,199,151	\$ 64,891
Capital Leases Payable	192,061	764,596	176,670	779,987	193,979
Net Pension Liability	8,032,394	782,990	-	8,815,384	-
Long-term Liabilities	\$ 9,486,226	\$ 1,547,586	\$ 239,290	\$ 10,794,522	\$ 258,870
Business-type Activities:					
Revenue Bonds Payable	\$ 4,135,300	\$ -	\$ 169,100	\$ 3,966,200	\$ 240,400
Notes Payable	3,723,275	4,601,049	1,112,970	7,211,354	436,927
Compensated Absences	271,779	27,408	-	299,187	59,013
Net Pension Liability	2,442,123	219,572	-	2,661,695	-
Long-term Liabilities	\$ 10,572,477	\$ 4,848,029	\$ 1,282,070	\$ 14,138,436	\$ 736,340

NOTE 8: PENSION AND RETIREMENT SYSTEMS

General information about the County Employees retirement system Hazardous & Non-Hazardous (“CERS”)

Plan description – Employees of the City and Campbellville Water and Sewer Company are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

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

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

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (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' service and the 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 non-service related disability benefits.

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

	Required contribution
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The City's contribution requirement for CERS for the years ended June 30, 2017, 2016, and 2015 was \$664,482, \$564,135, and \$580,060 from the City and \$241,388, \$225,055, and \$225,736 from employees. The total covered payroll for CERS during the years ended June 30, 2017, 2016 and 2015 was \$3,943,285, \$3,712,758, and \$3,708,527.

The Campbellsville Water and Sewer Company (Company) contribution requirement for CERS for the years ended June 30, 2017, 2016, and 2015 was \$193,637, \$160,165, and 168,979 from the Company and \$69,404, \$64,479 and 66,266 from employees. The total covered payroll for CERS during the years ended June 30, 2017, 2016 and 2015 was \$1,388,081, \$1,289,573, and \$1,325,325.

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

City of Campbellsville

At June 30, 2017, the City reported a liability of \$4,736,273 for its non-hazardous proportionate share of the net pension liability for CERS and a liability of \$4,079,111 for its hazardous proportionate share of the net pension liability for a total net pension liability for the City of \$8,815,384 at June 30, 2017. The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the City's non-hazardous proportion was 0.096195% percent and the City's hazardous proportion was .237719%.

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

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

For the year ended June 30, 2017, the City reduced pension expense \$(171,759). At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 115,320	\$ -
Changes of assumptions	720,051	-
Net difference between projected and actual earnings on pension plan investments	668,510	357,300
Changes in proportion and differences between City contributions and proportionate share of contributions	172,190	-
City contributions subsequent to the measurement date	664,481	-
Total	\$ 2,340,552	\$ 357,300

\$664,481 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	463,565
2019	463,567
2020	233,767
2021	157,872

Campbellsville Water and Sewer

At June 30, 2017, Campbellsville Water and Sewer (Company) reported a liability of \$2,661,695 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Company's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the Company's proportion was 0.054060% percent.

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

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

For the year ended June 30, 2017, the Company reduced pension expense by \$49,790. At June 30, 2017, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,359	\$ -
Changes of assumptions	222,783	-
Net difference between projected and actual earnings on pension plan investments	213,318	78,400
Changes in proportion and differences between Company contributions and proportionate share of contributions	61,028	51,894
Company contributions subsequent to the measurement date	193,637	-
Total	\$ 709,125	\$ 130,294

\$193,637 reported as deferred outflows of resources related to pensions resulting from Company contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	133,215
2019	133,217
2020	68,716
2021	50,046

Actuarial assumptions—the total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For CERS, 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 (set back 1 year for females). For disabled members, the RP-2000 Combined Disability Mortality Table projected

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

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

Long-term rate of return: For CERS, the long-term expected return 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 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—for CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Municipal bond rate: For CERS, the discount rate determination does not use a municipal bond rate

Periods of projected benefit payments: For CERS, projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table present the net pension liability of the City and the Campbellsville Water and Sewer Company, calculated using the discount rates selected by CERS, as well as what the City and the Campbellsville Water and Sewer Company's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage- point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
City's proportionate share of net pension liability-non hazardous	5,902,165	4,736,273	3,736,874
City's proportionate share of net pension liability- hazardous	5,124,563	4,079,111	3,216,808
Campbellsville Water and Sewer's proportionate share of net pension liability	3,316,919	2,661,695	2,100,062

Pension plan fiduciary net positions—detailed information about the pension plan's fiduciary net position is available in the financial report of CERS.

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

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

DEFERRED COMPENSATION:

The City also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The City does not contribute to these plans. For the year ended June 30, 2017, employee contributed approximately \$40,425 to the plan.

NOTE 9: RISK MANAGEMENT

The City of Campbellsville participates in the Kentucky Municipal Risk Management Association (KMRMA), to provide workers compensation and general liability and property insurance. The City along with other participating entities contributes annual amounts determined by KMRMA management. As claims arise they are submitted to and paid by KMRMA. There were no significant reductions in insurance coverage from the prior year.

NOTE 10: LANDFILL CLOSURE AND POSTCLOSURE CARE COST

In 2003 the Kentucky legislature passed House Bill No. 174 that provided for State assumption of responsibility for the costs of closure for formerly permitted municipal solid waste landfills. This was implemented as an amendment to KRS 224, Subchapter 43. The Kentucky Division of Waste Management has determined the City of Campbellsville's landfill qualifies for assistance under this program. As a result of this legislation, the City will be required to incur some post-closure costs for monitoring and maintenance of the landfill. Neither the duration or exact costs for this monitoring period have been determined, therefore no estimate for post-closure costs have been accrued.

NOTE 11: INTERLOCAL AGREEMENT

Effective July 1, 2011 the City entered into an agreement with the Taylor County Fiscal Court to provide emergency medical services, rescue services, dispatch and E-911 services for the entire geographical area of Taylor County. The County will maintain the land line tax imposed by County Ordinance and pay to the City all revenues generated from this tax. The County will pay to the City an annual sum of \$650,000 paid in quarterly payments. This will be done to insure that the County has paid one-half of the operating deficits for these services. Within a month after the fiscal year-end the City will reimburse any amount due to the county or request payment for any amount due.

Effective July 1, 2009 the City entered into an agreement with the Taylor County Fiscal Court for the County's occupational tax office to administer, collect, and distribute all receipts from the City of Campbellsville Occupational License fee ordinance for consideration of \$16,000 base pay plus FICA and retirement and one-fourth of the actual monthly general operating expenses of the Occupational Tax Office. These expenses include, but are limited to, supplies, bond, postage, phone, travel, conference training, and equipment, hardware and software. Additional part-time help during peak season and postage for initial mailing and notification of taxpayers and license holders at the inception of the tax will be paid 100% by the City.

NOTE 12: DEFICIT OPERATING/FUND BALANCES

There are no funds of the City that currently have a deficit fund balance. In addition, the following fund had operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	\$36,685
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CITY OF CAMPBELLVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Governmental Activities:

The beginning net position of the Governmental Activities in the government-wide Statement of Activities has been restated to record a prior period adjustment to correct the City's accounts receivable from medic runs as of June 30, 2016. A reconciliation of the prior period ending net position to the current year beginning net position for the Governmental Activities is as follows:

Net position, July 1, 2016 as Previously Reported	\$ (240,733)
Increase in A/R Medic Runs	<u>362,914</u>
Beginning net position, as restated	<u>\$ 122,181</u>

The above adjustment had no impact on the current year change in net position.

Governmental Fund Types:

The beginning fund balance of the General Fund in the Statement of Revenues, Expenditures, and changes in Fund Balance has been restated to record a prior year adjustment to correct the City's accounts receivable from medic runs as of June 30, 2016. A reconciliation of the prior period ending General fund balance to the current year beginning General fund balance is as follows:

Fund Balance, July 1, 2016 as Previously Reported	\$ 2,293,318
Increase in A/R Medic Runs	<u>362,914</u>
Beginning fund balance, as restated	<u>\$ 2,656,232</u>

NOTE 14: SUBSEQUENT EVENT

Due to Kentucky Infrastructure Authority funds previously not available, the Campbellsville Water & Sewer Company received a reimbursement of construction costs incurred by Campbellsville Water & Sewer for the Regional Water project in the amount of \$57,900 in December 2017.

REQUIRED SUPPLEMENTARY SCHEDULES

CITY OF CAMPBELLSVILLE, KENTUCKY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - ACTUAL AND BUDGETED (GAAP BASIS)-
 GOVERNMENTAL FUND TYPE
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues:				
Taxes				
Occupational taxes	\$ 2,525,000	\$ 2,525,000	\$ 2,915,049	\$ 390,049
Property	1,219,500	1,219,500	1,221,179	1,679
Insurance	1,450,000	1,450,000	1,411,518	(38,482)
Franchise fees/permits	484,600	484,600	486,054	1,454
Intergovernmental revenues	1,405,600	1,405,600	1,391,238	(14,362)
Charges for service	2,556,200	2,556,200	2,631,675	75,475
Other income	192,760	192,760	241,585	48,825
Total revenues	9,833,660	9,833,660	10,298,298	464,638
Expenditures:				
General government	2,672,384	2,672,384	2,084,574	(587,810)
Public safety				
Police	1,852,665	1,852,665	1,893,497	40,832
Communication	800,975	800,975	732,775	(68,200)
Fire/ rescue	998,555	998,555	1,569,456	570,901
EMS/rescue	1,841,397	1,841,397	1,883,388	41,991
Streets and roads	693,929	693,929	777,637	83,708
Planning and codes	77,255	77,255	102,135	24,880
Recreation and parks	453,280	453,280	440,850	(12,430)
Garage	89,025	89,025	84,453	(4,572)
Sanitation and landfill	1,005,831	1,005,831	1,273,182	267,351
Debt service	353,600	353,600	329,721	(23,879)
Total expenditures	10,838,896	10,838,896	11,171,668	332,772
Excess revenues over (uinder) expenditures	(1,005,236)	(1,005,236)	(873,370)	131,866
Other financing sources (uses)				
Capital leases	-	-	764,596	764,596
Transfers in	-	-	59,520	59,520
Sale of fixed assets	25,000	25,000	12,569	(12,431)
Total other financing sources (used)	25,000	25,000	836,685	811,685
Excess revenues and other sources				
Over (under) expenditures and other uses	(980,236)	(980,236)	(36,685)	943,551
Fund balance - beginning of year	980,236	980,236	2,656,232	1,675,996
Fund balance - end of year	\$ -	\$ -	\$ 2,619,547	\$ 2,619,547

CITY OF CAMPBELLSVILLE KENTUCKY
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NON-HAZARDOUS NET PENSION
 June 30, 2017

	2016	2015	2014
City's proportion of the net pension liability (asset)	9.61950%	9.74890%	0.092513%
City's prportionate share of the net pension liability (asset)	\$4,736,273	\$4,191,567	\$3,001,000
City's covered-employee payroll	\$2,469,141	\$2,608,983	\$2,608,983
City's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	191.82%	160.66%	115.03%
Plan fiduciary net position as a percentage of the total pension liabili	55.50%	59.97%	66.80%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF CAMPBELLSVILLE KENTUCKY
 SCHEDULE OF NON-HAZARDOUS CONTRIBUTIONS TO CERS
 June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 344,445	\$ 297,937	\$ 301,521
Contributions in relation to the contractually required contribution	<u>(344,445)</u>	<u>(297,937)</u>	<u>(301,521)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,469,141	\$ 2,398,850	\$ 2,364,874
Contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF CAMPBELLSVILLE KENTUCKY
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE HAZARDOUS CERS NET PENSION LIABILITY
 June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.237719%	0.250199%	0.245229%
City's prportionate share of the net pension liability (asset)	\$ 4,079,111	\$ 3,840,827	\$ 2,947,000
City's covered-employee payroll	\$ 1,474,143	\$ 1,343,653	\$ 1,298,383
City's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	276.71%	285.85%	226.97%
Plan fiduciary net position as a percentage of the total pension liabili	53.95%	57.52%	63.46%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF CAMPBELLSVILLE KENTUCKY
 SCHEDULE OF HAZARDOUS CONTRIBUTIONS TO CERS
 June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 320,036	\$ 266,198	\$ 278,539
Contributions in relation to the contractually required contribution	<u>(320,036)</u>	<u>(266,198)</u>	<u>(278,539)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,474,143	\$ 1,313,908	\$ 1,343,653
Contributions as a percentage of covered-employee payroll	21.71%	20.26%	20.73%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CAMPBELLSVILLE WATER AND SEWER
 SCHEDULE OF THE ENTERPRISES'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
 June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Company's proportion of the net pension liability (asset)	0.05406%	0.05680%	0.054242%
Company's prportionate share of the net pension liability (asset)	\$ 2,661,695	\$ 2,442,123	\$ 1,760,000
Company's covered-employee payroll	\$ 1,289,570	\$ 1,325,325	\$ 1,248,295
Company's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	206.40%	184.27%	140.99%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CAMPBELLSVILLE WATER AND SEWER
SCHEDULE OF CONTRIBUTIONS TO CERS
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 193,637	\$ 160,165	\$ 168,979
Contributions in relation to the contractually required contribution	<u>(193,637)</u>	<u>(160,165)</u>	<u>(168,979)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,388,081	\$ 1,289,573	\$ 1,325,325
Contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CAMPBELLSVILLE WATER AND SEWER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
For the Year Ended June 30, 2017

NOTE 1 – 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:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

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

NOTE 2 – CHANGES OF ASSUMPTION

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

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

2015:

1. The assumed investment rate of return was decreased from 7.75% to 7.50%.
2. The assumed rate of inflation was reduced from 3.50% to 3.25%.
3. The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
4. Payroll growth assumption was reduced from 4.50% to 4.00%.
5. The mortality table used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
6. For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF CAMPBELLSVILLE, KENTUCKY
BALANCE SHEET - SPECIAL REVENUE FUNDS
June 30, 2017

	Special Revenue	Totals- Memorandum Only June 30, 2017
Assets and resources:		
Cash and investments	\$ -	\$ -
Receivables (net of allowances)		
Other	4,764	4,764
Due from other funds	-	-
Total assets and resources	\$ 4,764	\$ 4,764
Liabilities and fund balance:		
Interfund payable	\$ 4,764	\$ 4,764
Total liabilities	4,764	4,764
Fund balance		
Reserved fund balance	-	-
Total Fund Equity	-	-
Total liabilities and fund balance	\$ 4,764	\$ 4,764

CITY OF CAMPBELLSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Special Revenue	Totals - Memorandum Only June 30, 2017
Revenues:		
Intergovernmental revenues	\$ 313,938	\$ 313,938
Other income	-	-
Total revenues	313,938	313,938
Expenditures:		
General government	225,055	225,055
Public safety:		
Police	27,583	27,583
Communication	38,086	38,086
Fire/rescue	13,214	13,214
EMS	10,000	10,000
Total expenditures	313,938	313,938
Excess revenues over (under) expenditures	-	-
Other financing sources (uses)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources	-	-
Excess revenues and other sources over (under) expenditures and other uses	-	-
Fund balance - beginning of year	-	-
Fund balance - end of year	\$ -	\$ -

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF CAMPBELLSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Pass-Through Grantors Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,209,015
Passed Through Kentucky Department of Forestry Cooperative Forestry Assistance	10.664	FAP111-44-00	<u>2,214</u>
Total U.S. Department of Agriculture			1,211,229
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Lake Cumberland Area Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	16-005	<u>220,000</u>
Total U.S. Department of Housing and Urban Development			220,000
<u>U.S. Department of the Interior</u>			
Passed Through the Kentucky Heritage Council Historic Preservation Fund Grants-in-Aid	15.904	14-112	<u>1,005</u>
Total U.S. Department of the Interior			1,005
<u>U.S. Department of Transportation</u>			
Passed Through the Kentucky Transportation Cabinet State and Community Highway Safety	20.600	PT-16-08	2,890
State and Community Highway Safety	20.600	AL-17-03	<u>7,157</u>
			10,047
<u>U.S. Environmental Protection Agency</u>			
Congressionally Mandated Projects	66.202		166,445
Passed Through the Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	F15-013	<u>346,886</u>
Total U.S. Environmental Protection Agency			513,331
<u>Executive Office of the President</u>			
Passed Through the Office of National Drug Control Policy High Intensity Drug Trafficking Areas Program	95.001	G16AP0001A	8,188
High Intensity Drug Trafficking Areas Program	95.001	G17AP0001A	<u>9,348</u>
Total Executive Office of the President			17,536
Total Federal Financial Assistance			<u>\$ 1,973,148</u>

CITY OF CAMPBELLSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Campbellsville, Kentucky under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Campbellsville, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Campbellsville, Kentucky.

NOTE 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – Indirect Cost Rate

The City of Campbellsville has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF CAMPBELLSVILLE, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	U.S. Department of Housing and Urban Development Passed through Lake Cumberland Area Development District Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
66.458	U.S. Environmental Protection Agency Passed through Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

CITY OF CAMPBELLSVILLE, KENTUCKY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2017

Findings and Questioned Costs – Financial Statements:

Finding:

None

Findings and Questioned Costs – Major Federal Award Program Audit:

Finding:

None

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

Honorable Mayor,
City Council and City Clerk of
City of Campbellsville, 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 City of Campbellsville, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Campbellsville, Kentucky's basic financial statements, and have issued our report thereon dated February 1, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Campbellsville, Kentucky's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not

Honorable Mayor,
City Council and City Clerk of
Campbellsville, Kentucky
Page 2

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*.

We also noted other matters that we reported to management of the City of Campbellsville in a separate letter dated February 1, 2018.

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.

Wise, Buckner, Sprowles & Associates, PLLC
Wise, Buckner, Sprowles & Associates, PLLC

Campbellsville, Kentucky
February 1, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor,
City Council and City Clerk of
Campbellsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Campbellsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of City of Campbellsville Kentucky's major federal programs for the year ended June 30, 2017. City of Campbellsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Campbellsville, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Campbellsville, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Campbellsville, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Campbellsville, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Honorable Mayor,
City Council and City Clerk of
Campbellsville, Kentucky
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Report on Internal Control Over Compliance

Management of City of Campbellsville, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Campbellsville, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Campbellsville, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC

Campbellsville, Kentucky
February 1, 2018