

CITY OF CAMPBELLSBURG, KENTUCKY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2017

CITY OF CAMPBELLSBURG, KENTUCKY
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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Campbellsburg, Kentucky, 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, and each major fund of the City of Campbellsburg, 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.

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 36, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 37, and the Schedule of City Contributions – County Employees Retirement System on page 38 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 consisted 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 we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017, on our consideration of the City of Campbellsburg, 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 solely 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 effectiveness of the City of Campbellsburg, Kentucky's 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 City of Campbellsburg, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

December 13, 2017

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, including time deposits	\$ 160,602	\$ -	\$ 160,602
Accounts Receivable	42,343	-	42,343
Due from Other Governments	1,313	-	1,313
Prepaid Expense	2,270	-	2,270
Total Current Assets	<u>\$ 206,528</u>	<u>\$ -</u>	<u>\$ 206,528</u>
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 41,581	\$ -	\$ 41,581
Capital Assets (Net)	1,057,900	-	1,057,900
Total Noncurrent Assets	<u>\$ 1,099,481</u>	<u>\$ -</u>	<u>\$ 1,099,481</u>
Total Assets	<u>\$ 1,306,009</u>	<u>\$ -</u>	<u>\$ 1,306,009</u>
DEFERRED OUTFLOWS OF RESOURCES			
Attributable to Employee Pension Plan	<u>\$ 43,870</u>	<u>\$ -</u>	<u>\$ 43,870</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 19,227	\$ -	\$ 19,227
Accrued Compensated Absences	2,853	-	2,853
Accrued Taxes/Employee Withholding	5,412	-	5,412
Current Liabilities Payable from Restricted Assets:			
Lease Payable	5,000	-	5,000
Total Current Liabilities	<u>\$ 32,492</u>	<u>\$ -</u>	<u>\$ 32,492</u>
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 8,445	\$ -	\$ 8,445
Lease Payable	622,917	-	622,917
Net Pension Liability	152,322	-	152,322
Total Noncurrent Liabilities	<u>\$ 783,684</u>	<u>\$ -</u>	<u>\$ 783,684</u>
Total Liabilities	<u>\$ 816,176</u>	<u>\$ -</u>	<u>\$ 816,176</u>
DEFERRED INFLOWS OF RESOURCES			
Attributable to Employee Pension Plan	<u>\$ 22,458</u>	<u>\$ -</u>	<u>\$ 22,458</u>
NET POSITION			
Net Investment in Capital Assets	\$ 429,983	\$ -	\$ 429,983
Restricted for:			
Debt Service	7,480	-	7,480
Other Purposes	91,144	-	91,144
Unrestricted	(17,362)	-	(17,362)
Total Net Position	<u>\$ 511,245</u>	<u>\$ -</u>	<u>\$ 511,245</u>

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions / Programs							
<u>Governmental Activities:</u>							
General Government	\$ 216,175	\$ 13,592	\$ 954	\$ -	\$ (201,629)	\$ -	\$ (201,629)
Public Safety							
Fire	33,173	-	-	-	(33,173)	-	(33,173)
Police	22,905	4,839	-	-	(18,066)	-	(18,066)
Sanitation	47,030	50,082	-	-	3,052	-	3,052
Community Center	6,487	7,298	-	6,000	6,811	-	6,811
Highways & Streets	54,484	-	16,336	-	(38,148)	-	(38,148)
Parks & Recreation	11,980	-	3,123	-	(8,857)	-	(8,857)
Interest	27,207	-	-	-	(27,207)	-	(27,207)
Total Governmental Activities	\$ 419,441	\$ 75,811	\$ 20,413	\$ 6,000	\$ (317,217)	\$ -	\$ (317,217)
<u>Business-type Activities</u>							
Sewer	\$ 142,757	\$ 34,865	\$ -	\$ -	\$ -	\$ (107,892)	\$ (107,892)
Total Business-type Activities	\$ 142,757	\$ 34,865	\$ -	\$ -	\$ -	\$ (107,892)	\$ (107,892)
Total Government	\$ 562,198	\$ 110,676	\$ 20,413	\$ 6,000	\$ (317,217)	\$ (107,892)	\$ (425,109)
General Revenues:							
Taxes:							
					\$ 91,022	\$ -	\$ 91,022
					34,156	-	34,156
					130,622	-	130,622
					374	191	565
					\$ 256,174	\$ 191	\$ 256,365
					\$ 100,529	\$ (100,529)	\$ -
Special Item							
					-	(2,246,141)	(2,246,141)
					\$ 39,486	\$ (2,454,371)	\$ (2,414,885)
					471,759	2,454,371	2,926,130
					\$ 511,245	\$ -	\$ 511,245

See accompanying notes to the basic financial statements

CITY OF CAMPBELLSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Municipal Road Aid	Total Governmental Funds
ASSETS			
Cash, including time deposits	\$ 103,559	\$ 57,043	\$ 160,602
Cash - Restricted	41,581	-	41,581
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Taxes	26,236	-	26,236
Franchise Taxes	7,957	-	7,957
Sanitation Service	7,877	-	7,877
Property Taxes	1,586	-	1,586
Prepaid Expenses	2,270	-	2,270
Total Assets	<u>\$ 191,066</u>	<u>\$ 57,043</u>	<u>\$ 248,109</u>
LIABILITIES			
Accounts Payable	\$ 19,227	\$ -	\$ 19,227
Accrued Wages	320	-	320
Accrued Compensated Absences	2,853	-	2,853
Accrued Payroll Taxes/Employee Withholding	3,342	-	3,342
Accrued Retirement	1,750	-	1,750
Total Liabilities	<u>\$ 27,492</u>	<u>\$ -</u>	<u>\$ 27,492</u>
FUND BALANCES			
Nonspendable	\$ 2,270	\$ -	\$ 2,270
Restricted for:			
Municipal Road Aid	-	57,043	57,043
Debt Service	7,480	-	7,480
VFD Fire Truck	34,101	-	34,101
Unassigned	119,723	-	119,723
Total Fund Balances	<u>\$ 163,574</u>	<u>\$ 57,043</u>	<u>\$ 220,617</u>
Total Liabilities and Fund Balances	<u>\$ 191,066</u>	<u>\$ 57,043</u>	<u>\$ 248,109</u>

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

Total Governmental Fund Balances	\$ 220,617
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$617,634	1,057,900
Deferred Outflows of Resources Attributable to Employee Pension Plan	43,870
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds:	
Accrued Compensated Absences	(8,445)
Lease Payable	(627,917)
Net Pension Liability	(152,322)
Deferred Inflows of Resources Attributable to Employee Pension Plan	<u>(22,458)</u>
Net Position of Governmental Activities	<u><u>\$ 511,245</u></u>

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

	General Fund	Municipal Road Aid	Total Governmental Funds
REVENUES			
Property Taxes	\$ 90,305	\$ -	\$ 90,305
Franchise Taxes	34,156	-	34,156
Insurance Taxes	130,622	-	130,622
Sanitation Revenue	50,082	-	50,082
Business Licenses	10,823	-	10,823
Community Center Revenue	7,298	-	7,298
Donations	9,123	-	9,123
Interest Revenue	336	38	374
Miscellaneous Revenue	2,769	-	2,769
Proceeds from Outside Sources:			
Telecommunications Tax	717	-	717
HB 413 Citations Revenue	4,839	-	4,839
Kentucky Municipal Road Aid	-	16,336	16,336
Local Government Economic Assistance	-	954	954
Total Revenues	\$ 341,070	\$ 17,328	\$ 358,398
EXPENDITURES			
Current			
General Government	\$ 178,758	\$ -	\$ 178,758
Public Safety			
Fire	20,000	-	20,000
Police	22,703	-	22,703
Sanitation	47,030	-	47,030
Highways & Streets	36,078	7,068	43,146
Parks and Recreation	4,480	-	4,480
Community Center	6,487	-	6,487
Capital Outlay	2,300	-	2,300
Debt Service			
Principal	5,000	-	5,000
Interest	27,207	-	27,207
Total Expenditures	\$ 350,043	\$ 7,068	\$ 357,111
Excess (deficiency) of Revenues over Expenditures	\$ (8,973)	\$ 10,260	\$ 1,287
Other Financing Sources (Uses)			
Transfers In	\$ 100,529	\$ -	\$ 100,529
Total Other Financing Sources and Uses	\$ 100,529	\$ -	\$ 100,529
Net Change in Fund Balances	\$ 91,556	\$ 10,260	\$ 101,816
Fund Balances - July 1	72,018	46,783	118,801
Fund Balances - June 30	\$ 163,574	\$ 57,043	\$ 220,617

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

Net Change in Fund Balances - Total Governmental Funds \$ 101,816

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

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense.

Capitalized Expenditures	2,300
Depreciation Expense	(55,585)

Some expenses reported in the Statement of Activities,
such as compensated absences, do not require the use
of current financial resources and therefore are not
reported as expenditures in governmental funds. (3,107)

Governmental funds report city pension contributions as expenditures.
However in the Statement of Activities, the cost of pension
benefits earned net of employee contributions is reported as
pension expense. (10,938)

Repayment of Lease Payable is recorded as an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in
the Statement of Net Position. 5,000

Change in Net Position of Governmental Activities	<u><u>\$ 39,486</u></u>
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CITY OF CAMPBELLSBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2017

	Sewer Utilities Enterprise Fund
ASSETS	
Current Assets:	
Total Current Assets	\$ -
Noncurrent Assets:	
Total Noncurrent Assets	\$ -
Total Assets	\$ -
LIABILITIES	
Current Liabilities:	
Total Current Liabilities	\$ -
Noncurrent Liabilities:	
Total Noncurrent Liabilities	\$ -
Total Liabilities	\$ -
NET POSITION	
Total Net Position	\$ -

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

<u>OPERATING REVENUES:</u>	
Debt Service Income	\$ 34,865
 Total Operating Revenues	 \$ 34,865
<u>OPERATING EXPENSES:</u>	
Depreciation	\$ 100,208
 Total Operating Expenses	 \$ 100,208
 Operating Income (Loss)	 \$ (65,343)
<u>NON-OPERATING REVENUES (EXPENSES):</u>	
Interest Revenue	\$ 191
Interest Expense	(42,549)
 Total Non-Operating Revenues (Expenses)	 \$ (42,358)
 Income (Loss)	
Before Transfers and Extraordinary Item	\$ (107,701)
 Transfers	
Transfers Out	(100,529)
Special Item	
Loss on Sale of Sewer Distribution System	(2,246,141)
 Change in Net Position	 \$ (2,454,371)
 Net Position July 1, 2016	 2,454,371
 Net Position June 30, 2017	 \$ -

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

CASH FLOWS FROM OPERATING ACTIVITIES

Debt Service Income Collected	\$ 51,078
Net Cash Provided (Used) by Operating Activities	<u>\$ 51,078</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to General Fund	\$ (100,529)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>\$ (100,529)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments Associated with Asset Transfer	\$ (153,743)
Principal Paid on Capital Debt	(17,000)
Interest Paid on Capital Debt	(42,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (213,643)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ 191
Net Cash Provided (Used) by Investing Activities	<u>\$ 191</u>

Net Increase (Decrease) in Cash and Cash Equivalents	\$ (262,903)
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Cash Balances-July 1	<u>262,903</u>
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Cash Balances-June 30	<u><u>\$ -</u></u>
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (65,343)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	

Depreciation Expense	100,208
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Change in Assets and Liabilities:	
Receivables, Net	<u>16,213</u>

Net Cash Provided (Used) by Operating Activities	<u><u>\$ 51,078</u></u>
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SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

On June 28, 2017, the proprietary fund transferred the sewer system assets and associated outstanding debt to the City of Carrollton, Kentucky f/b/o Carrollton Utilities. The net book value of the assets transferred was \$3,136,497. Bonded debt and accrued interest assumed by the City of Carrollton, Kentucky was \$1,044,099.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
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NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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- C. Revenue Restrictions

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- B. Restricted Assets
- C. Accounts Receivable
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CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of entity: City of Campbellsburg, Kentucky is a "home rule class" city with population of approximately 800. It is operated under Kentucky Revised Statutes mayor/council form of government. The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of Campbellsburg
Blended Component Units:	Sewer Utilities of Campbellsburg

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 61, "The Financial Reporting Entity: Omnibus" and includes all component units over which the City exercises significant influence including units of which the City appoints a voting majority of the units' board, the City is either able to impose its will on the unit, or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate entities that meet the component unit criteria described above and whose governing body is the same as or designated by the City Commission or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type.

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
City of Campbellsburg Sewer System	The City operates a utility system to provide residents of the City and certain outlying areas sanitary sewers and sewage treatment facilities. The City Council approves the utility rates. The debt of the Utilities is backed by the full faith and credit of the City and is, therefore, a contingent liability to the general government.	Enterprise Fund

Excluded from the reporting entity:

Campbellsburg Volunteer Fire Department – This potential component unit has a separately elected board and provides services within and outside the geographic boundaries of the City. The City does provide funding; however, it is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operation, or approve budgets.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Fund

Enterprise Fund

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the City of Campbellsburg Water and Sewer Enterprise Fund.

Fiduciary Funds (Not included in government-wide statements)

None

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
<i>Major:</i> General	See above for description.
Special Revenue Funds: Municipal Road Aid	Accounts for revenues and expenditures from the state gasoline tax.
Proprietary Fund: Campbellsburg Sewer System	Accounts for activities in providing water and wastewater services to the public.
<i>Nonmajor:</i> None	

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY
(Continued)

Interfund Receivables and Payables

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

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include insurance license taxes and amounts due from other governments. Business-type activities report utility revenues as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as insurance license tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic ageing of accounts receivable.

Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair value at the date of donation. The City maintains a capitalization threshold of \$1,500 (fifteen hundred dollars). The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY
(Continued)

Government-wide Statements (Continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings	10-40 years
- Improvements	10-40 years
- Machinery and Equipment	5-15 years
- Utility System	20-40 years
- Infrastructure	15-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt consists of capital lease payable, bonds payable and net pension liability.

Long-term debts of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Debt issuance costs are expensed as incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY
(Continued)

Compensated Absences

Under the City's policies, full-time employees accumulate vacation time. Unused vacation time may be carried into the next year provided the employee uses at least fifty percent (50%) of their accrued time before the end of each twelve (12) month period following their initial employment (month) date. The liability for these compensated absences is recorded as a liability in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Each full-time employee is granted sick leave at the rate of one (1) day per month. Part time employees working at least thirty (30) hours per week on a regular basis are eligible for six (6) hours sick leave per month. Part time employees working ten (10) hours to twenty (20) hours per week on a regular basis are eligible for four (4) hours sick leave per month. Unused sick leave can be accumulated. Accrued sick leave can be credited to an employee's length of service at retirement.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- b. Restricted – amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.
- c. Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY
(Continued)

Equity Classifications (Continued)

Fund Statements (Continued)

- d. Assigned – amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. This is the residual fund balance classification for all governmental funds except the general fund.

The City Council is the City's highest level of decision making authority. Formal approval of a motion made at a public meeting of the City Council is necessary to establish (and modify or rescind) a fund balance commitment or assignment.

- e. Unassigned – this is the residual classification for the general fund.

Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, insurance license taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Insurance license taxes are recognized to the extent known in the period for which the insurance company reports the fee collected. Revenue from grants, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 1, of the following year.

Property tax revenues are recognized when they become available. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within sixty days after year end. An allowance for uncollectible delinquent property taxes is provided to the extent that their collectibility is improbable. Due to the immaterial amount of any additional property taxes receivable after the sixty-day period, no additional accrual is made in the government-wide financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Insurance License Tax

The City levies an 10% (ten percent) license fee on the first year premiums for life insurance and 10% (ten percent) of the premiums for all other types of insurance actually collected for policies on risks located within the corporate limits of the city excluding those received for insuring employers against personal injuries to their employees, or death caused thereby, under the provisions of the Workers Compensation Act, or health insurance provided for state employees under KRS 18A.225(2). Insurance license fees are payable to the city within 30 (thirty) days after the end of each calendar quarter.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund-By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

The City adheres to the use restrictions established by Kentucky Revised Statutes when expenses are incurred for which both restricted and unrestricted net position are available. The City has no policy defining which resources (restricted or unrestricted) to use first. The City also has no stabilization arrangements at this time.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring separate accounting or use of separate funds. Those funds requiring separate accounting used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Municipal Road Aid	State Law

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Kentucky or political subdivision debt obligations, or surety bonds. As required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note 3A., all deposits were insured or collateralized at year end.

KRS 66.480 authorizes the City to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The City may also invest in mutual funds meeting the requirements of the statute.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
Sewer Debt Service Revenue	Debt Service and Utility Operations

For the year ended June 30, 2017, the City complied, in all material respects, with these revenue restrictions.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

City of Campbellsburg Kentucky's policies regarding deposits of cash are in accordance with the state statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2017, in accordance with the City's policy \$207,257 of the City's deposits were covered by federal depository insurance. Thus, the City had no deposits that were exposed to custodial credit risk.

Cash and equivalents and investments at June 30, 2017, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Demand Deposits	\$ -	\$ -
Time/Savings Deposits	207,257	202,183
Total Deposits	<u>\$ 207,257</u>	<u>\$ 202,183</u>

Business-type Activities

NONE

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. RESTRICTED ASSETS

Restricted cash and investments consists of the following:

	Governmental Activities	Business-type Activities	Total
Community Center Sinking Fund	\$ 7,480	\$ -	\$ 7,480
VFD Savings	34,101	-	34,101
	<u>\$ 41,581</u>	<u>\$ -</u>	<u>\$ 41,581</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consists of insurance licenses (62.4%), franchise taxes (18.9%) and sanitation services (18.7%). Receivables detail at June 30, 2017, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 42,343	\$ -	\$ 42,343
Allowance for doubtful accounts	-	-	-
Net accounts receivable	<u>\$ 42,343</u>	<u>\$ -</u>	<u>\$ 42,343</u>

3.D. CAPITAL ASSETS

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

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
Governmental Activities:				
Land	\$ 13,718	\$ -	\$ -	\$ 13,718
Buildings & Improvements	1,163,232	-	-	1,163,232
Machinery & Equipment	315,242	2,300	-	317,542
Infrastructure	181,042	-	-	181,042
Totals at Historical Cost	<u>\$ 1,673,234</u>	<u>\$ 2,300</u>	<u>\$ -</u>	<u>\$ 1,675,534</u>
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 214,788	\$ 35,214	\$ -	\$ 250,002
Machinery & Equipment	257,442	12,747	-	270,188
Infrastructure	89,819	7,624	-	97,444
Total Accumulated Depreciation	<u>\$ 562,049</u>	<u>\$ 55,585</u>	<u>\$ -</u>	<u>\$ 617,634</u>
 Governmental Activities - Capital Assets, Net	<u>\$ 1,111,185</u>	<u>\$ (53,285)</u>	<u>\$ -</u>	<u>\$ 1,057,900</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 23,372
Public Safety - Fire	13,173
Public Safety - Police	202
Public Works	11,338
Parks and Recreation	7,500
Total Depreciation Expense	<u>\$ 55,585</u>

\$853,414 of assets are recorded under capital lease obligations. Accumulated depreciation of \$118,133 associated with these assets is included under Buildings and Improvements. Land is not depreciated. \$266,033 of depreciable assets are fully depreciated.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
Business-type Activities:				
Land & Right of Ways	\$ 19,400	\$ -	\$ (19,400)	\$ -
Sewer Collection System	4,867,100	-	(4,867,100)	-
Machinery & Equipment	23,307	-	(23,307)	-
Totals at Historical Cost	<u>\$ 4,909,807</u>	<u>\$ -</u>	<u>\$ (4,909,807)</u>	<u>\$ -</u>
 Less: Accumulated Depreciation				
Sewer Collection System	\$ 1,649,795	\$ 100,208	\$ (1,750,003)	\$ -
Machinery & Equipment	23,307	-	(23,307)	-
Total Accumulated Depreciation	<u>\$ 1,673,102</u>	<u>\$ 100,208</u>	<u>\$ (1,773,310)</u>	<u>\$ -</u>
 Business-type capital assets, net	<u>\$ 3,236,705</u>	<u>\$ (100,208)</u>	<u>\$ (3,136,497)</u>	<u>\$ -</u>
 Depreciation Expense was charged to the business activities as follows:				
Sewer	\$ 100,208			
Total Depreciation Expense	<u>\$ 100,208</u>			

3.E. LONG-TERM DEBT

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

At June 30, 2017, the governmental long-term debt of the City consisted of the following:

Lease Payable:

Kentucky Bond Corporation represents a capital lease for which the full faith, credit and revenue of the City are pledged for its payments. It is further secured by a security interest in personal property of the Campbellsburg Station. The original principal balance was \$655,000. Semi-annual payments with maturity January 1, 2037.

	<u>\$ 627,917</u>
Current Portion	\$ 5,000
Long Term Portion	622,917
	<u>\$ 627,917</u>

Accrued Compensated Absences:

Current Portion	\$ 2,853
Long Term Portion	8,445
	<u>\$ 11,298</u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Business-Type Activities

Bonds Payable – United States Department of Agriculture – Rural Development represents a 30-year bond issue secured by sewer revenues. Interest is charged at 4.125% per annum. The original principal balance was \$1,155,000, and was issued to provide construction and extensions to the City's sewer system. Semi-annual payments with final maturity January 1, 2046. This debt was transferred to the City of Carrollton, f/b/o Carrollton Utilities on June 28, 2017.

\$ -

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital Lease Obligations	\$ 632,917	\$ -	\$ 5,000	\$ 627,917	\$ 5,000
Accrued Compensated Absences	5,338	5,960	-	11,298	2,853
Totals	<u>\$ 638,255</u>	<u>\$ 5,960</u>	<u>\$ 5,000</u>	<u>\$ 639,215</u>	<u>\$ 7,853</u>
Business Activities					
Bonds Payable	<u>\$ 1,040,000</u>	<u>\$ -</u>	<u>\$ 1,040,000</u>	<u>\$ -</u>	<u>\$ -</u>

Description of the Debt Activity:

Governmental Activities

The City entered into a capital lease on March 29, 2012 in the amount of \$655,000. The proceeds of the lease were used to finance the acquisition and construction of the Campbellsburg Station which is a multi-purpose facility including a custom playground, community center and enhanced parking area for the downtown core. Interest is charged at rates of 3% - 4.25% per annum. Payments of principal and interest are made on a monthly basis. The lease is a full obligation of the City and, as such, the City's full faith, credit and revenue are pledged for its prompt payment. Additionally the lease is secured by the personal property of the Campbellsburg Station. A summary of lease principal and interest, and fee payments to maturity is as follows:

For the Year Ending June 30,	Principal	Interest	Fee	Outstanding Balance
				\$ 627,917
2018	\$ 5,000	\$ 25,025	\$ 2,019	622,917
2019	5,000	24,875	2,007	617,917
2020	5,000	24,725	1,995	612,917
2021	5,000	24,575	1,982	607,917
2022	5,000	24,420	1,970	602,917
2023-2027	155,000	108,744	8,901	447,917
2028-2032	205,000	73,645	6,661	242,917
2033-2037	242,917	27,961	3,707	-
	<u>\$ 627,917</u>	<u>\$ 333,970</u>	<u>\$ 29,242</u>	<u>\$ -</u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. INTEREST EXPENSE

Interest expense for the Governmental Funds was \$27,207. Interest expense for the Enterprise Funds for the year ended June 30, 2017, was \$42,549. No interest was capitalized during the year ended June 30, 2017.

3.G. INTERFUND TRANSACTIONS AND BALANCES

The following transfers made during the year ended June 30, 2017 were reported in the fund financial statements:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
Sewer Fund	General Fund	<u>\$ 100,529</u>	Transfer of remaining equity

3.H. FUND EQUITY

Restricted Net Position

The following table shows the restricted net position as shown on the Statement of Net Position:

Governmental Activities

<u>Activity</u>	<u>Restricted by</u>	
General Fund		
Debt Service	Lease Agreement	\$ 7,480
Other Purposes		
VFD Fire Truck	VFD Contract	34,101
Municipal Road Aid	State Law	57,043
		<u>\$ 98,624</u>

Classifications of Fund Balance

The following classification of fund balance on the Governmental Funds Balance Sheet (Fund Financial Statement) have been made:

Nonspendable for prepaid expense:

General Fund	<u>\$ 2,270</u>
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Restricted for:

General Fund:

Debt Service	\$ 7,480
VFD Fire Truck	34,101
Municipal Road Aid	
Street and Alley Purposes	<u>57,043</u>

Total Restricted	<u>\$ 98,624</u>
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Assigned for:

General Fund:

Future Acquisition of Fire Truck	<u>\$ 34,101</u>
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Total Assigned	<u>\$ 34,101</u>
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CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.H. FUND EQUITY (Continued)

Classifications of Fund Balance (Continued)

Unrestricted net position of the governmental funds was increased by \$10,938 as a result of the transactions recorded by the City to reflect its proportionate share of the County Employees' Retirement System's Net Pension Liability.

Decrease in Deferred Outflows of Resources	\$ (5,205)
Increase in Deferred Inflows of Resources	(22,458)
Decrease in Net Pension Liability	16,725
Net Increase in Unrestricted Net Position	<u>\$ 10,938</u>

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the City may participate in the System.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030,%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Method Used to Value Investments – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

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 service and 55 years old
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

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions - For the fiscal year ended June 30, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2016 participating employers contributed 17.06% of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2016 was 17.06%. Administrative costs of KRS are financed through employer contributions and investment earnings.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended 2016, determined as of June 30, 2015. Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms during the year ended June 30, 2016.

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Cash Equivalent Long Term Expected Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	100%	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year.

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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. 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

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.B. RISK MANAGEMENT

Insurance and Related Activities

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks are covered through the purchase of commercial insurance. The City is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky League of Cities, Workers' Compensation Trust. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

4.C. COMMITMENTS & CONTINGENCIES

The City receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purposes, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Employees are granted sick leave monthly based on their status as full time or part time and the hours worked. Employees may accumulate sick leave with no limit. Employees are not paid for accumulated sick leave upon retirement, or for any other form of termination. However, such leave may be credited to the employee's length of service at retirement. The total liability for accumulated sick leave at June 30, 2017 was \$7,061. No liability has been recorded on the sick leave attributable to employees as these payments are not considered probable.

The City has various pending claims or lawsuits. The ultimate disposition of any settlement or other legal decision is not determined at the present time.

4.D. MISCELLANEOUS

Income Tax Status

The City is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The City is evaluating the requirements of this statement.

Change in Presentation

Expenditures associated with street light utilities and depreciation expense of general fixed assets have been included under the function of highways and streets.

Special Item

On June 28, 2017, the City transferred the sewer system assets and associated debt to the City of Carrollton f/b/o Carrollton Utilities. In the transaction the City paid \$136,240 for two new pump stations and returned \$17,503 in debt service revenues previously received. The total loss incurred by the City on the transfer was \$2,246,141.

CITY OF CAMPBELLSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 83,984	\$ 83,984	\$ 90,305	\$ 6,321
Franchise Taxes	33,797	33,797	34,156	359
Insurance Taxes	154,360	154,360	130,622	(23,738)
Sanitation Revenue	46,103	46,103	50,082	3,979
Business Licenses	5,000	5,000	10,823	5,823
Community Center Revenue	11,500	11,500	7,298	(4,202)
Donations	-	-	9,123	9,123
HB 413 Citations Revenue	5,331	5,331	4,839	(492)
Interest Revenue	716	716	336	(380)
Miscellaneous Revenue	717	717	3,486	2,769
Total Revenues	\$ 341,508	\$ 341,508	\$ 341,070	\$ (438)
EXPENDITURES				
Current				
General Government	\$ 200,330	\$ 200,330	\$ 178,758	\$ 21,572
Public Safety - Fire	54,084	54,084	20,000	34,084
Public Safety - Police	29,930	29,930	22,703	7,227
Highways & Streets	44,900	44,900	36,078	8,822
Parks and Recreation	5,500	5,500	4,480	1,020
Community Center	9,250	9,250	6,487	2,763
Sanitation	46,103	46,103	47,030	(927)
Capital Outlay	7,500	7,500	2,300	5,200
Debt Service	32,289	32,289	32,207	82
Total Expenditures	\$ 429,886	\$ 429,886	\$ 350,043	\$ 79,843
Excess (deficiency) of Revenues over Expenditures	(88,378)	(88,378)	(8,973)	79,405
Other Financing Sources				
Transfers In	\$ -	\$ -	\$ 100,529	\$ 100,529
Net Change in Fund Balance	\$ (88,378)	\$ (88,378)	\$ 91,556	\$ 179,934
Fund Balances - July 1	115,463	115,463	72,018	(43,445)
Fund Balances - June 30	\$ 27,085	\$ 27,085	\$ 163,574	\$ 136,489

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2017

Budgetary Accounting

The City Commission follows these procedures in establishing the budgetary data for the general and municipal road aid funds included in the required supplementary information.

- (1) The Mayor and City Clerk-Treasurer submit to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Clerk-Treasurer presents monthly financial statements to the City Commission comparing actual year to date expenditures to budgeted expenditures as required by Kentucky Revised Statutes.
- (5) Formal budgetary integration was employed as a management control device during the year.
- (6) The budget for the General Fund is prepared on the modified accrual basis of accounting.
- (7) Appropriations lapse at the end of each fiscal year.
- (8) The City Commission may authorize supplemental appropriations during the year. The budget was amended after year end.

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - NONHAZARDOUS
June 30, 2017

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City's proportion of the net pension liability (asset) %	0.00309%	0.003932%	0.003159%
City proportionate share of the net pension liability (asset)	\$ 152,322	\$ 169,047	\$ 102,000
City's covered - employee payroll	\$ 63,820	\$ 92,157	\$ 99,622
City proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	238.67%	183.43%	102.39%
Pension plans (CERS) fiduciary net position as a percentage of the total pension liability	55.5%	59.97%	66.80%

Calculations are based on Kentucky Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer for the fiscal years shown.

GASB 68 requires the City to present the above information for 10 years. The information will be expanded annually until a full 10 - year trend is compiled.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- 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 retire members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS TO THE COUNTY EMPLOYEES
RETIREMENT SYSTEM (CERS) - NONHAZARDOUS
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contribution for Pension	\$ 8,819	\$ 9,166	\$ 11,750
City's Contributions in Relation to the Statutorily Required Contribution	<u>(8,819)</u>	<u>(9,166)</u>	<u>(11,750)</u>
Annual Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Contributions as a Percentage of Statutorily Required Contribution for Pension	100.00%	100.00%	100.00%
City's Covered - Employee Payroll	\$ 63,820	\$ 73,800	\$ 92,157
Contributions as a Percentage of its Covered Employee Payroll	13.82%	12.42%	12.75%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of the fiscal year ended above.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011

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, and each major fund, of the City of Campbellsburg, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Campbellsburg, Kentucky's basic financial statements and have issued our report thereon dated December 13, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City of Campbellsburg, 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 Campbellsburg, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Campbellsburg, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Items 2017-001 and 2017-002).

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011
Page Two

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether City of Campbellsburg, 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 express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY OF CAMPBELLSBURG, KENTUCKY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

December 13, 2017

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of City of Campbellsburg, Kentucky were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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*. Items 2017-001 and 2017-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of City of Campbellsburg, Kentucky which would be required to be reported in Accordance with Government Auditing Standards were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2017-001 SIZE OF ENTITY

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

CONDITION:

Due to the size of the administrative staff, the internal control is limited.

CONTEXT:

The City is a small entity with limited staff.

EFFECT:

The limitations on rotation of duties and checking procedures may affect the City's ability to record, process, summarize and report financial data.

CAUSE:

The staff size of the City limits the ability to rotate duties and implement checking procedures.

RECOMMENDATION:

Management should strive to separate duties as staff and cost benefits allow.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the size and responsibility of financial personnel.

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2017

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2017-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CONDITION:

City financial statements, including the required disclosures, are prepared as part of the annual audit. The condition was also cited as a material weakness in the Schedule of Findings and Responses for the year ended June 30, 2016 as item 2016-002.

CONTEXT:

The City Clerk does not prepare a complete set of financial statements including required note disclosures.

EFFECT:

Management has engaged the auditor to assist with preparation of the draft financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

CAUSE:

Management of the City are not sufficiently familiar with all accounting, financial reporting and disclosure requirements to prepare internal financial statements. The draft accrual basis (government-wide) financial statements and disclosures are prepared during the audit process. Entries are not entered into the City's general ledger and financial reports.

RECOMMENDATION:

Management should continue to be aware of its responsibilities in the preparation of its financial statements and continue to increase its involvement in understanding of that process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation and will continue to improve our overall accounting knowledge. Due to the complexity of the financial reporting process and full government disclosures, the City will continue to rely on the auditor in future years to assist with the preparation of the financial statements and related disclosures, with our oversight.

COMPLIANCE AND OTHER MATTERS

NONE

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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To the Mayor Shelley Noe
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky

In planning and performing our audit of the financial statements of the City of Campbellsburg, Kentucky, as of and for the year ended June 30, 2017, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We previously reported on the City's internal control in a separate report dated December 13, 2017. This letter does not affect our report dated December 13, 2017, on the financial statements of the City of Warsaw, Kentucky.

We have identified the size of the administrative staff as a material weakness. As a small entity, the city has one employee who is responsible for billing, posting and balancing all transactions. With one individual responsible for all of these functions, the possibility of material error in the records increases. During the audit process we observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

- **Bank Reconciliations** – We recommend that the Mayor or a council member receive the bank statement unopened from the bank, or electronically, review the transactions therein, and initial the statement validating their review. Items outstanding in the reconciliation for over six months should be addressed. The reconciled balance should be tied to the general ledger.
- **Expenditures** – The mayor should initial the invoices as approved for payment. This indicates that the services and materials have been received. We recommend that the Council approve payments at their meeting by initialing an "Orders of the Treasurer" which lists all disbursements made or to be made since the last meeting. Payments other than routine payments for services should not be issued until after the meeting and council has approved payment.
- **Payroll** – Salary increases were indicated on the budget worksheet. We would recommend that a more formal approval of rates be made in the minutes or on an attached spreadsheet showing the rates and total anticipated expenditure [which would be approved and signed by council].

In the area of payroll taxes, it was observed that social security and medicare had not been paid on the county employees retirement system contributions made by the employees incurred after January 1, 2017. Form 941 is a quarterly report submitted to the IRS for wages paid. This form is being run monthly to calculate the payroll tax liability. There are other reports available in Quick Books for this purpose. By using the 941 it is difficult to determine the actual 941 filed.

We recommend that a signed copy of all tax reports submitted be maintained. Then, in the event of a tax notice, there is no question as to the information that was actually submitted.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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December 13, 2017

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Campbellsburg, Kentucky for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Campbellsburg, Kentucky are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the fixed asset depreciable lives is based on each asset's projected useful life expectancy. We evaluated the key factors and assumptions used to develop the fixed asset depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense is based on information provided in the Kentucky County Employees Retirement Report (CERS) for the year ended June 30, 2016. We evaluated and compared amounts attributable to the City per that report to amounts reported in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, KY 40011
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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has accepted all recommended adjustments to correct misstatements identified.

The following material misstatements either individually or when considered as a whole, detected as a result of audit procedures were corrected by management:

- Adjust Certificate of Deposit balances to actual.
- Adjustment to record accrued compensated absences.
- Adjustment to void old outstanding checks/deposits in general ledger and record deposit in transit.
- Adjustments to properly reflect accrual basis account balances.
- Adjustments to reclassify revenue and expense postings.
- Adjustments to properly record depreciation expense.
- Adjustments to record the transfer of the sewer system assets to the City of Carrollton f/b/o Carrollton Utilities.

Adjustments were also made to prepare the City's government-wide financial statements. These statements are not included in the reports generated through the City's financial reporting system. These adjustments included the recording of depreciation expense, capitalization of fixed assets, deferred outflows of resources and deferred inflows of resources, net pension liability and reclassification of debt service. All were discussed with and approved by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 13, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

The Honorable Shelley Noe, Mayor
and Members of the City Council
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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison information, Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System, and Schedule of City Contributions – County Employees Retirement System which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of Honorable Shelley Noe, Mayor, and Members of the City Council and management of City of Campbellsburg and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky