

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

Year Ended June 30, 2018

CITY OF CAMPBELLSBURG, KENTUCKY
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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, and each major fund of the City of Campbellsburg, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, 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.

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, 2018, 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
Certified Public Accountants
Carrollton, Kentucky

December 13, 2018

CITY OF CAMPBELLSBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities
ASSETS	
Current Assets	
Cash, including time deposits	\$ 167,279
Accounts Receivable	51,900
Due from Other Governments	5,561
Other Receivables	12,232
Prepaid Expense	987
Total Current Assets	\$ 237,959
Noncurrent Assets:	
Restricted Assets	
Cash, including time deposits	\$ 37,575
Capital Assets (Net)	1,033,390
Total Noncurrent Assets	\$ 1,070,965
Total Assets	\$ 1,308,924
DEFERRED OUTFLOWS OF RESOURCES	
Attributable to Employee Pension Plan	\$ 53,647
Attributable to Employee OPEB Plan	14,810
Total Deferred Outflows of Resources	\$ 68,457
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 18,440
Accrued Retirement	1,009
Accrued Wages	475
Accrued Compensated Absences	1,254
Accrued Taxes/Employee Withholding	2,526
Note Payable	5,067
Current Liabilities Payable from Restricted Assets:	
Lease Payable	5,000
Total Current Liabilities	\$ 33,771
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 5,020
Lease Payable	617,917
Note Payable	26,607
Net Pension Liability	153,415
Net OPEB Liability	52,691
Total Noncurrent Liabilities	\$ 855,650
Total Liabilities	\$ 889,421
DEFERRED INFLOWS OF RESOURCES	
Attributable to Employee Pension Plan	\$ 41,280
Attributable to Employee OPEB Plan	2,758
Total Deferred Inflows of Resources	\$ 44,038
NET POSITION	
Net Investment in Capital Assets	\$ 378,799
Restricted for:	
Debt Service	3,440
Other Purposes	101,065
Unrestricted	(39,382)
Total Net Position	\$ 443,922

CITY OF CAMPBELLSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Total Governmental Activities
Functions / Programs					
Governmental Activities:					
General Government	\$ 221,257	\$ 22,751	\$ 1,068	\$ -	\$ (197,438)
Public Safety					
Fire	33,403	-	-	-	(33,403)
Police	25,556	4,932	-	-	(20,624)
Sanitation	48,447	53,237	-	-	4,790
Community Center	7,575	8,535	-	-	960
Highways & Streets	54,730	-	19,603	-	(35,127)
Parks & Recreation	11,043	2,661	-	-	(8,382)
Interest	27,387	-	-	-	(27,387)
Total Governmental Activities	\$ 429,398	\$ 92,116	\$ 20,671	\$ -	\$ (316,611)

General Revenues:

Taxes:	
Property Taxes	\$ 92,555
Franchise Taxes	37,119
Insurance Taxes	157,382
Unrestricted Investment Income	146
Restricted Investment Income	66
Total General Revenues	<u>\$ 287,268</u>
Change in Net Position	<u>\$ (29,343)</u>
Net Position - July 1 (As Previously Stated)	\$ 511,245
Restatement - GASB Statement 75	<u>(37,980)</u>
Net Position - July 1 (As Restated)	<u>\$ 473,265</u>
Net Position - June 30	<u><u>\$ 443,922</u></u>

CITY OF CAMPBELLSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Municipal Road Aid	Total Governmental Funds
ASSETS			
Cash, including time deposits	\$ 100,349	\$ 66,930	\$ 167,279
Cash - Restricted	37,575	-	37,575
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Taxes	39,199	-	39,199
Franchise Taxes	8,827	-	8,827
Sanitation Service	3,874	-	3,874
Due From Other Governments	2,358		2,358
Other Receivables	12,232	-	12,232
Prepaid Expenses	987	-	987
Total Assets	\$ 205,401	\$ 66,930	\$ 272,331
LIABILITIES			
Accounts Payable	\$ 16,523	\$ -	\$ 16,523
Accrued Wages	475	-	475
Accrued Compensated Absences	1,254	-	1,254
Accrued Payroll Taxes/Employee Withholding	2,526	-	2,526
Accrued Retirement	1,009	-	1,009
Total Liabilities	\$ 21,787	\$ -	\$ 21,787
FUND BALANCES			
Nonspendable	\$ 987	\$ -	\$ 987
Restricted for:			
Municipal Road Aid	-	66,930	66,930
Debt Service	3,440	-	3,440
VFD Fire Truck	34,135	-	34,135
Committed	12,232	-	12,232
Unassigned	132,820	-	132,820
Total Fund Balances	\$ 183,614	\$ 66,930	\$ 250,544
Total Liabilities and Fund Balances	\$ 205,401	\$ 66,930	\$ 272,331

CITY OF CAMPBELLSBURG, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Governmental Fund Balances		\$ 250,544
<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 \$666,298		1,033,390
Deferred Outflows of Resources		
Attributable to Employee Pension Plan	\$ 53,647	
Attributable to Employee OPEB Plan	14,810	68,457
Expenditures that have been incurred for goods and services received during the fiscal year but not paid within sixty days of year end have been reported as a liability in the statement of net position.		(1,917)
Revenues arising from transactions during the fiscal year but not received within sixty days of year end have reported as receivable in the Statement of Net Position.		3,203
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds:		
Accrued Compensated Absences	\$ 5,020	
Note Payable	31,674	
Lease Payable	622,917	
Net Pension Liability	153,415	
Net OPEB Liability	52,691	(865,717)
Deferred Inflows of Resources		
Attributable to Employee Pension Plan	\$ 41,280	
Attributable to Employee OPEB Plan	2,758	(44,038)
Net Position of Governmental Activities		\$ 443,922

CITY OF CAMPBELLSBURG, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Municipal Road Aid	Total Governmental Funds
REVENUES			
Property Taxes	\$ 91,898	\$ -	\$ 91,898
Franchise Taxes	37,119	-	37,119
Insurance Taxes	157,382	-	157,382
Sanitation Revenue	53,237	-	53,237
Business Licenses	9,200	-	9,200
Community Center Revenue	11,196	-	11,196
Interest Revenue	181	32	213
Miscellaneous Revenue	13,616	-	13,616
Proceeds from Outside Sources:			
Telecommunications Tax	657	-	657
HB 413 Citations Revenue	4,867	-	4,867
Kentucky Municipal Road Aid	-	16,400	16,400
Local Government Economic Assistance	-	1,067	1,067
Total Revenues	\$ 379,353	\$ 17,499	\$ 396,852
EXPENDITURES			
Current			
General Government	\$ 185,323	\$ -	\$ 185,323
Public Safety			
Fire	20,000	-	20,000
Police	23,835	-	23,835
Sanitation	48,447	-	48,447
Highways & Streets	35,780	7,612	43,392
Parks and Recreation	3,543	-	3,543
Community Center	7,575	-	7,575
Capital Outlay	34,097	-	34,097
Debt Service			
Principal	5,831	-	5,831
Interest	27,387	-	27,387
Total Expenditures	\$ 391,818	\$ 7,612	\$ 399,430
Excess (deficiency) of Revenues over Expenditures	\$ (12,465)	\$ 9,887	\$ (2,578)
Other Financing Sources (Uses)			
Note Proceeds	\$ 32,505	\$ -	\$ 32,505
Total Other Financing Sources and Uses	\$ 32,505	\$ -	\$ 32,505
Net Change in Fund Balances	\$ 20,040	\$ 9,887	\$ 29,927
Fund Balances - July 1	163,574	57,043	220,617
Fund Balances - June 30	\$ 183,614	\$ 66,930	\$ 250,544

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, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 29,927

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		34,097
Depreciation Expense		(58,607)

Revenues arising from transactions during the fiscal year but not received within sixty days of year end are not considered "available" financial resources and therefore are not reported as revenues in governmental funds.		3,203
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	\$ 3,425	
Workers Compensation Audit	<u>(1,917)</u>	
		1,508

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

Capital Lease	\$ 5,000	
Note Payable	<u>831</u>	
		5,831

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.		(10,138)
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Governmental funds report city OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as OPEB expense.		(2,659)
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The proceeds of the note payable issued to finance the acquisition of a police cruiser and associated equipment are reported in the governmental funds as a source of financing. In the Statement of Net Position, such proceeds constitute a long-term liability.		<u>(32,505)</u>
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Change in Net Position of Governmental Activities		<u>\$ (29,343)</u>
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CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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:	None

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.

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.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The City of Campbellsburg reports all of its transactions in governmental funds. During the year ended June 30, 2017 the City transferred its sewer operation to the City of Carrollton f/b/o Carrollton Utilities. Therefore, the City has no business activities. It also has no fiduciary activities. 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The government-wide statements are prepared using the economic resources measurement focus. This approach 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 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 governmental function is self-financing or draws from the general revenues of the City.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

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. An emphasis is placed on major funds within the government. 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.

As indicated above, the City of Campbellsburg reports all of its transactions in governmental funds.

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.

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.

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.
<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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Measurement Focus

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

In the fund financial statements, 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.

In the government-wide statements an "economic resources" measurement focus is used. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

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, governmental 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 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.

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.

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

Interfund Receivables and Payables

During the course of operations, transactions may 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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 franchise taxes.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as insurance license tax, franchise tax, 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.

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 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.

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
- 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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 reported in the government-wide or fund financial statements.

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

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.

Post Employment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB 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.

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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.
- 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.

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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Insurance License Tax

The City levies an 12% (twelve percent) license fee on the first year premiums for life insurance and 12% (twelve 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.

Expenditures/Expenses

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

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

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

In the fund financial statements, governmental funds report expenditures of financial 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. Restricted and committed amounts are considered to have been spent when an expenditures is incurred for the purpose of such classifications. The City also has no stabilization arrangements at this time.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

For the year ended June 30, 2018, the City complied, in all material respects, with these revenue restrictions.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, 2018, in accordance with the City's policy \$213,265 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, 2018, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Time/Savings Deposits	\$ 213,265	\$ 204,854
Total Deposits	\$ 213,265	\$ 204,854

3.B. RESTRICTED ASSETS

Restricted cash and investments consists of the following:

Community Center Sinking Fund	\$ 3,440
VFD Savings	34,135
	\$ 37,575

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consists of insurance licenses (75.5%), franchise taxes (17.0%), sanitation services (7.1%) and other miscellaneous (7.5%). Receivables detail at June 30, 2018, is as follows:

Accounts receivable	\$ 51,900
Allowance for doubtful accounts	-
Net accounts receivable	\$ 51,900

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
Governmental Activities:				
Land	\$ 13,718	\$ -	\$ -	\$ 13,718
Buildings & Improvements	1,163,232	-	-	1,163,232
Machinery & Equipment	317,542	34,097	(9,943)	341,696
Infrastructure	181,042	-	-	181,042
Totals at Historical Cost	<u>\$ 1,675,534</u>	<u>\$ 34,097</u>	<u>\$ (9,943)</u>	<u>\$ 1,699,688</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 250,002	\$ 35,214	\$ -	\$ 285,216
Machinery & Equipment	270,188	15,769	(9,943)	276,014
Infrastructure	97,444	7,624	-	105,068
Total Accumulated Depreciation	<u>\$ 617,634</u>	<u>\$ 58,607</u>	<u>\$ (9,943)</u>	<u>\$ 666,298</u>
Governmental Activities - Capital Assets, Net	<u>\$ 1,057,900</u>	<u>\$ (24,510)</u>	<u>\$ -</u>	<u>\$ 1,033,390</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 24,645
Public Safety - Fire	13,403
Public Safety - Police	1,721
Public Works	11,338
Parks and Recreation	7,500
Total Depreciation Expense	<u>\$ 58,607</u>

\$853,414 of assets are recorded under capital lease obligations. Accumulated depreciation of \$143,669 associated with these assets is included under Buildings and Improvements. Land is not depreciated. \$253,376 of depreciable assets are fully depreciated.

3.E. LONG-TERM DEBT

Governmental Activities

At June 30, 2018, 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>\$ 622,917</u>
Current Portion	\$ 5,000
Long Term Portion	617,917
	<u>\$ 622,917</u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.E. LONG-TERM DEBT (Continued)

Note Payable:

United Citizens Bank & Trust Company represents a 72 month loan collateralized by a 2018 Ford AWD vehicle and associated equipment. Interest is charged at the rate of 2.880% per annum. The original principal balance was \$32,505. Monthly payments for principal and interest are \$493/month.

\$ 31,674

Current Portion
Long Term Portion

\$ 5,067
26,607
\$ 31,674

Accrued Compensated Absences

Current Portion
Long Term Portion

\$ 1,254
5,020
\$ 6,274

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital Lease Obligations	\$ 627,917	\$ -	\$ 5,000	\$ 622,917	\$ 5,000
Note Payable	-	32,505	831	31,674	5,067
Accrued Compensated Absences	11,298	-	5,024	6,274	1,254
Totals	<u>\$ 639,215</u>	<u>\$32,505</u>	<u>\$ 10,855</u>	<u>\$ 660,865</u>	<u>\$ 11,321</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
				\$ 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	15,417	24,420	1,970	592,500
2023	30,000	23,903	1,931	562,500
2024-2028	169,167	102,787	8,503	393,333
2029-2033	212,083	65,316	6,144	181,250
2034-2037	181,250	18,344	2,691	-
	<u>\$ 622,917</u>	<u>\$ 308,945</u>	<u>\$ 27,223</u>	<u>\$ -</u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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

Description of the Debt Activity: (Continued)

Note Payable

The City entered into a note payable on April 11, 2018 in the amount of \$32,505. The proceeds of the note were used to finance the acquisition of a new police cruiser and associated equipment. Interest is charged at the rate of 2.880% per annum. Payments of principal and interest of \$493 are made on a monthly basis, with the last payment due on April 11, 2024. A summary of note principal and interest to maturity is as follows:

<u>For the Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 5,067	\$ 846	\$ 5,913
2020	5,215	698	5,913
2021	5,367	546	5,913
2022	5,524	389	5,913
2023	5,686	227	5,913
2024	4,815	63	4,878
	<u>\$ 31,674</u>	<u>\$ 2,769</u>	<u>\$ 34,443</u>

3.F. INTEREST EXPENSE

Interest expense for the Governmental Funds was \$27,387. No interest was capitalized during the year ended June 30, 2018.

3.G. 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	\$ 3,440
Other Purposes		
VFD Fire Truck	VFD Contract	34,135
Municipal Road Aid	State Law	66,930
		<u>\$ 104,505</u>

Classifications of Fund Balance

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

Nonspendable for prepaid expense:

General Fund \$ 987

Restricted for:

General Fund:		
Debt Service	\$ 3,440	
VFD Fire Truck	34,135	
Municipal Road Aid		
Street and Alley Purposes	<u>66,930</u>	
Total Restricted		<u>\$ 104,505</u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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

3.H. FUND EQUITY (Continued)

Classifications of Fund Balance (Continued)

Committed for:

General Fund:

Road Repairs and Paving	\$	12,232
		12,232
Total Committed	\$	12,232

Unrestricted net position of the governmental funds was decreased by \$12,797 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.

Increase in Deferred Outflows of Resources	\$	21,568
Increase in Deferred Inflows of Resources		(21,580)
Increase in Net Pension Liability		(1,093)
Increase in Net OPEB Liability		(11,692)
Net decrease in Unrestricted Net Position	\$	(12,797)

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council. 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. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, dated June 30, 2017, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2017
<https://kyret.ky.gov/About/Internal-Audit/Documents/2017%20Audited%20Financial%20Statements%20and%20Independent%20Auditor's%20Reports.pdf>
- Kentucky Retirement Systems Schedule of Employer Allocations and Pension Amounts – Audit Report 2017 – GASB 68
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky Retirement Systems Schedules of Employer Allocations and OPEB Amounts by Employer – Audit Report 2017 – GASB 75
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

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.

Method Used to Value Investments/Investment Objectives – 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. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- Medium-Term (5 to 30 years): The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- Longer-Term: The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Asset Allocation Board Policy as of June 30, 2017 was as follows:

	2017
Combined Equity	50.80%
Combined Fixed Income	14.00%
Private Equity	10.00%
Absolute Return	10.00%
Real Return	8.00%
Real Estate	5.00%
Cash	2.20%
	100.00%

Total fund return for the year ended June 30, 2017 was 13.47%.

Pension 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

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, 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.

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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 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.

There were no changes in benefit terms during the year ended June 30, 2017.

Contributions - Participating employers are 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, 2017 participating employers contributed 18.68% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2017 was 18.68%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Employer contributions for the year ended June 30, 2017, (18.68%) were allocated 13.95% to CERS's pension fund and 4.73% to CERS' OPEB (health insurance) fund, respectively.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

For the fiscal year ended June 30, 2017, 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. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, 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, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

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 an additional 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, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate these contribution rates are as follows:

Item	CERS Non-Hazardous
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

In general, the assumptions and methods used in the valuation (as shown above) are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014.

Changes in the investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations. These changes in assumptions since the prior valuation are as follows:

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

Methods and Assumptions Used in Calculation of the Actuarially Determined Net Pension Liability

The total pension liability is based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Gabriel, Roeder, Smith & Co (GRS) did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of their replication. Information disclosed for years prior to June 30, 2017, was prepared by KRS's prior actuary, Cavanaugh Macdonald Consulting, LLC.

The single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2017 which is a decrease of 1.25% from the prior year. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the System contribute the actuarially determined contribution rate in all future years. The discount rate determination does not use a municipal bond rate.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At June 30, 2017, the City reported a liability of \$153,415 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2017 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the City's proportion was 0.002621 percent, which is a decrease of 0.000473 percent for the year ended June 30, 2017.

For the year ended June 30, 2018, the City's General Fund's total ^{payroll} was \$103,652. Contributions were based on \$64,084 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2018 were \$8,946.

The City's General Fund's total payroll for the fiscal year ended June 30, 2017, was \$104,739. Contributions were based on \$63,820 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017 were \$8,819.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

All contributions were made as required during these years.

The City's contribution for the County Employees' Retirement System's year ended June 30, 2017 was 0.002621 percent of the System's total contribution requirements for all employers.

For the year ended June 30, 2018 the City recognized pension expense of \$19,167. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	June 30, 2018	
	Governmental Funds	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 190	\$ 3,894
Change in Assumptions	28,309	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	4,052	27,133
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	12,150	10,253
City Contributions Made Subsequent to the NPL Measurement Date	8,946	-
Total	\$ 53,647	\$ 41,280

\$8,946 reported as deferred outflows of resources related to pensions arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

	Governmental Funds Increase (Decrease) to Pension Expense	
Year Ended June 30, 2018:	2019	\$ 862
	2020	2,182
	2021	2,348
	2022	(1,971)
	\$	3,421

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$734 the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding and employer match for he last month of the year then ended.

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

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017], calculated using the discount rates of 6.25% for the year ended June 30, 2017, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2017	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	\$ 7,382,285,260	\$ 5,853,307,443	\$ 4,574,328,530
City's Proportionate Share	193,490	153,415	119,893

Insurance Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	Portion Paid by Insurance Fund
	Paid by Insurance Fund (%)
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Contributions (Continued)

For members participating on or after July 1, 2003, the dollar contribution for fiscal year 2017 was \$13.18 for CERS Non-Hazardous members.

For the fiscal year ended June 30, 2017, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation 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).

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 75, *Report for Postemployment Benefits Other than Pensions* for the Kentucky County Employees Retirement System prepared as of June 30, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015, actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate those rates are as follows:

Item	CERS Non-Hazardous
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Payroll Growth:	4.00%
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
<i>Healthcare Trend Rates:</i>	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

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

Subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted updated actuarial assumptions which were used in performing the actuarial valuations as of June 30, 2017. Specifically, the total OPEB liability as of June 30, 2017, was determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Methods and Assumptions Used in Calculation of the Actuarially Determined Net OPEB Liability

The total OPEB Liability was rolled-forward from the valuation date of June 30, 2016 to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's (Cavanaugh Macdonald Consulting, LLC) valuation results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of that replication.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability.

The discount rates used to measure the total OPEB liability as of June 30, 2017 for the CERS Non-Hazardous group is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is GRS' understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At June 30, 2017, the City reported a liability of \$52,691 for its proportionate share of the Net OPEB liability.

As indicated above, the allocation of the total 18.68% employer contribution required on each employees' creditable compensation was 13.95% pension and 4.73% (OPEB) Health Insurance Fund.

The City's General Fund's total payroll for the fiscal year ended June 30, 2018 was \$103,652. Contributions were based on \$64,084 (eligible gross wages). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were \$3,345.

The City's General Fund's total payroll for the fiscal year ended June 30, 2017, was \$104,739. Contributions were based on \$63,820 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017, were \$3,019.

All contributions were made as required during these years.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

The City's contribution for the County Employee's Retirement System's (Insurance Plan) for the year ended June 30, 2017 was 0.002621 percent of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the year ended June 30, 2017 was \$644.

For the year ended June 30, 2018, the City recognized OPEB expense of \$6,004. At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	June 30, 2018	
	Governmental Funds	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 146
Change in Assumptions	11,465	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	122
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	2,490
City Contributions Made Subsequent to the NPL Measurement Date	3,345	-
Total	\$ 14,810	\$ 2,758

\$3,345 reported as deferred outflows of resources related to OPEB arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended June 30, 2018:	Governmental Funds Increase (Decrease) to OPEB Expense
2019	\$ 1,498
2020	1,498
2021	1,498
2022	1,498
2023	2,121
Thereafter	594
	\$ 8,707

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

The City's contribution for the County Employee's Retirement System's (Insurance Plan) for the year ended June 30, 2017 was 0.002621 percent of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the year ended June 30, 2017 was \$644.

For the year ended June 30, 2018, the City recognized OPEB expense of \$6,004 (~~\$115,993 attributed to the General Fund and \$138,480 attributed to the Proprietary Fund~~). At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 146
Change in Assumptions	11,465	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	122
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	2,490
City Contributions Made Subsequent to the NPL Measurement Date	3,345	-
Total	\$ 14,810	\$ 2,758

\$3,345 reported as deferred outflows of resources related to OPEB arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended June 30, 2018:	Governmental Funds Increase (Decrease) to OPEB Expense
2019	\$ 1,498
2020	1,498
2021	1,498
2022	1,498
2023	2,121
Thereafter	594
	\$ 8,707

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CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

Payable to the OPEB Health Insurance Plan

At June 30, 2018, the City reported a payable of \$275 for the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding end employer match for the last month of the year then ended.

Sensitivity of the City's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the single discount rates of 5.84% for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	<u>1% Decrease [4.84%]</u>	<u>Current Discount [5.84%]</u>	<u>1% Increase [6.84%]</u>
Net OPEB Liability	\$ 2,558,048,813	\$ 2,010,342,054	\$ 1,554,563,974
City's Proportionate Share	67,046	52,691	40,745

The following table presents the net other post employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the healthcare cost trend rate for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1,542,035,808	\$ 2,010,342,054	\$ 2,619,112,629
City's Proportionate Share	40,417	52,691	68,647

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.

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.C. COMMITMENTS & CONTINGENCIES (Continued)

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, 2018 was \$5,238. No liability has been recorded on the sick leave attributable to employees as these payments are not considered probable.

During February and March 2018 City roads and culverts sustained flood damage. These damages have been approved by the Federal Emergency Management Agency as eligible for federal assistance. A receivable has been recorded in the government wide financial statements of \$3,203 to reflect reimbursements approved.

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.

4.E. 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. Under these statements, the city is required to report in its accrual basis financial statement(s), the net other postemployment benefit liability associated with its' employees' benefits as a liability. It is also required to report a deferred outflow of resources for its benefit contributions made subsequent to the measurement date of the beginning net OPEB liability. These balances reflect the government's obligation to pay deferred benefits earned by its employees when the benefit [plan's] liability exceeds the value of the benefit plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the restatement is as follows for the year ended June 30, 2017.

Statement of Net Position:

	Governmental Activities
Total Net Position as Originally Presented June 30, 2017	\$ 511,245
Less Net OPEB Liability	(37,980)
Total Net Position as Restated, June 30, 2017	\$ 473,265

**The components of Net Position at June 30, 2017
after restatement are as follows:**

	Governmental Activities
Net Investment in Capital Assets	\$ 429,983
Restricted for Debt Service	7,480
Restricted for Other Purposes	91,144
Unrestricted	(55,342)
Total Net Position	\$ 473,265

CITY OF CAMPBELLSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 85,792	\$ 85,792	\$ 91,898	\$ 6,106
Franchise Taxes	37,726	37,726	37,119	(607)
Insurance Taxes	154,360	154,360	157,382	3,022
Sanitation Revenue	53,451	53,451	53,237	(214)
Business Licenses	6,475	6,475	9,200	2,725
Community Center Revenue	12,000	12,000	11,196	(804)
Telecommunications Tax	717	717	657	(60)
HB 413 Citations Revenue	5,471	5,471	4,867	(604)
Interest Revenue	-	-	181	181
Miscellaneous Revenue	500	500	13,616	13,116
Total Revenues	\$ 356,492	\$ 356,492	\$ 379,353	\$ 22,861
EXPENDITURES				
Current				
General Government	\$ 235,859	\$ 235,859	\$ 185,323	\$ 50,536
Public Safety - Fire	20,000	20,000	20,000	-
Public Safety - Police	23,581	23,581	23,835	(254)
Highways & Streets	10,800	10,800	35,780	(24,980)
Parks and Recreation	4,000	4,000	3,543	457
Community Center	7,500	7,500	7,575	(75)
Sanitation	50,872	50,872	48,447	2,425
Capital Outlay	7,500	7,500	34,097	(26,597)
Debt Service	32,100	32,100	33,218	(1,118)
Total Expenditures	\$ 392,212	\$ 392,212	\$ 391,818	\$ 394
Excess (deficiency) of Revenues over Expenditures	(35,720)	(35,720)	(12,465)	23,255
Other Financing Sources				
Note Proceeds	\$ -	\$ -	\$ 32,505	\$ 32,505
Net Change in Fund Balance	\$ (35,720)	\$ (35,720)	\$ 20,040	\$ 55,760
Fund Balances - July 1	79,463	79,463	163,574	84,111
Fund Balances - June 30	\$ 43,743	\$ 43,743	\$ 183,614	\$ 139,871

**CITY OF CAMPBELLSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL ROAD AID
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Kentucky Municipal Road Aid	\$ 16,047	\$ 16,047	\$ 16,400	\$ 353
Local Government Economic Assistance	1,194	1,194	1,067	(127)
Interest Revenue	12	12	32	20
Total Revenues	<u>\$ 17,253</u>	<u>\$ 17,253</u>	<u>\$ 17,499</u>	<u>\$ 246</u>
EXPENDITURES				
Highways and Streets	\$ 25,500	\$ 25,500	\$ 7,612	\$ 17,888
Total Expenditures	<u>\$ 25,500</u>	<u>\$ 25,500</u>	<u>\$ 7,612</u>	<u>\$ 17,888</u>
Net Change in Fund Balance	\$ (8,247)	\$ (8,247)	\$ 9,887	\$ 18,134
Fund Balances - July 1	<u>61,076</u>	<u>61,076</u>	<u>57,043</u>	<u>(4,033)</u>
Fund Balances - June 30	<u><u>\$ 52,829</u></u>	<u><u>\$ 52,829</u></u>	<u><u>\$ 66,930</u></u>	<u><u>\$ 14,101</u></u>

CITY OF CAMPBELLSBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2018

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

June 30, 2018

	<u>June 30, 2017*</u>	<u>June 30, 2016*</u>	<u>June 30, 2015*</u>
City's proportion of the net pension liability (asset)	0.00264%	0.003094%	0.003932%
City's proportionate share of the net pension liability (asset)	\$ 153,415	\$ 152,322	\$ 169,047
City's covered-employee payroll	\$ 63,820	\$ 73,800	\$ 92,157
City's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	240.39%	206.40%	183.43%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	55.5%	59.97%

*Calculations based on County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer as reported by Kentucky Retirement Systems and city payroll for the corresponding fiscal year then ended.

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.

Changes in Assumptions:

There were no changes of benefit terms. However, the investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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).

**CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDING JUNE 30**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually (Employer) Required Contribution	\$ 8,819	\$ 9,166	\$ 11,750
Contributions in Relation to the Contractually Required Contributions	<u>(8,819)</u>	<u>(9,166)</u>	<u>(11,750)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered - Employee Payroll	\$ 63,820	\$ 73,800	\$ 92,157
Contributions as a Percentage of Covered - Employee Payroll	13.82%	12.42%	12.75%

Calculations are based on County Employees Retirement Systems' Schedules of Employer Allocations and Pension amounts by Employer as reported by Kentucky Retirement Systems and City payroll for the corresponding fiscal year then ended.

The City's contributions above include only the contributions to the County Employees Retirement System's Pension Fund. GASB 68 requires the City to present the above information for the CERS Pension Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
June 30, 2018

	June 30, 2017
City's proportion of the net OPEB liability (asset) %	0.00264%
City proportionate share of the net OPEB liability (asset)	\$ 52,691
City's covered - employee payroll	\$ 63,820
City proportionate share of the net OPEB liability (asset) as a percentage of its covered - employee payroll	82.56%
Plan fiduciary net position as a percentage of the total OPEB liability.	52.4%

*Calculations are based on reports of the Kentucky Retirement Systems', County Employees Retirement System's Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal year ended June 30, shown.

GASB 75 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 investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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).

Health Care Trends:

- Pre-65 - Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
- Post-65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

**CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Fiscal Year Ending June 30**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually (Employer) Required Contributions	\$ 3,019	\$ 3,424
Contributions in Relation to the Contractually Required Contributions	(3,019)	(3,424)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 63,820	\$ 73,800
Contributions as a Percentage of Covered-Employee Payroll	4.73%	4.64%

Calculations are based on County Employees Retirement Systems' Schedule of Employer Allocations and OPEB amounts by Employer as reported by Kentucky Retirement Systems and City payroll for the corresponding fiscal year then ended.

The City's contributions above include only the contributions to the County Employees Retirement System's Insurance Fund. GASB 75 requires the City to present the above information for the CERS Insurance Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

**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 and each major fund, of the City of Campbellsburg, Kentucky as of and for the year ended June 30, 2018, 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, 2018.

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 as Items 2018-001 and 2018-002 that we consider to be material weaknesses.

The Honorable Shelley Noe, Mayor
and Members of the City Council
of the City of Campbellsburg
Campbellsburg, Kentucky 40011
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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
Certified Public Accountants
Carrollton, Kentucky

December 13, 2018

**CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2018**

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 2018-001 and 2018-002 were reported as material weaknesses.
3. One instance 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 was disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2018-001 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. The condition was also cited as a material weakness in the schedule of findings and responses for the year ended June 30, 2017 as Item 2017-001.

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 staff size and responsibility of financial personnel.

CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2018

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2018-002 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, 2017 as item 2017-002.

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

2018-003 VIOLATION OF KRS 65.7707

CRITERIA:

KRS 65.7707 states that notes payable, other than qualified long-term debt, must mature prior to the last day of the City's fiscal year.

CONDITION:

The City of Campbellsburg had outstanding debt (note-payable) at June 30, 2018.

CONTEXT:

The City obtained conventional bank debt (\$32,505) to finance a police cruiser purchased in April, 2018.

**CITY OF CAMPBELLSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2018**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

COMPLIANCE AND OTHER MATTERS (Continued)

2018-003 VIOLATION OF KRS 65.7707 (Continued)

EFFECT:

The City is not in compliance with KRS 65.7707, as it had notes payable outstanding at June 30, 2018.

CAUSE:

Procedures were not followed regarding Kentucky Revised Statutes.

RECOMMENDATION:

The City should not enter into any debt maturing after the end of its fiscal year other than qualified long-term debt.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

We will consider other financing sources for future needs.

December 13, 2018

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 and each major fund, of the City of Campbellsburg, Kentucky for the year ended June 30, 2018. 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 8, 2018. 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. The City adopted Statement of Governmental Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for periods beginning after June 15, 2017). Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the City of Campbellsburg 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 reporting of the net pension liability, net OPEB liability, and related transactions were based on amounts as reported by the Commonwealth of Kentucky's County Employees' Retirement System.

Difficulties Encountered in Performing the Audit

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

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 through journal entries recommended to and approved by management:

- Adjust cash and Certificate of Deposit balances to actual.
- Adjustment to record accrued compensated absences.
- Adjustment to 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 record the acquisition of equipment and the associated note payable.

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, net OPEB 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, 2018.

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
of the City of Campbellsburg
Campbellsburg, KY 40011
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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 schedule – general fund, schedule of the City's proportionate share of the net pension liability – county employees retirement system, schedule of City contributions (pension) – county employees retirement system, schedule of the City's proportionate share of net OPEB liability – county employees retirement system, and schedule of City contributions (OPEB) – 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
Certified Public Accountants
Carrollton, Kentucky