

CITY OF CAMPBELLSVILLE, KENTUCKY

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

For the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Campbellsville, Kentucky (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Campbellsville, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the City's proportionate share of net pension liability schedules, and the schedules of pension contributions on pages 3 through 9 and pages 36 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The additional information shown on pages 44 through 45 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards accepted in the United States of America. In our opinion, the information found on pages 44 through 45, and the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2017 on our consideration of the City of Campbellsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Campbellsville, Kentucky's internal control over financial reporting and compliance.

*Wise, Buckner, Spowles & Associates, PLLC*

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

Campbellsville, Kentucky  
February 6, 2017

CITY OF CAMPBELLSVILLE, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
Year Ended June 30, 2016

The discussion and analysis of the City of Campbellsville's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

The assets of the City exceeded its liabilities at the close of the fiscal year ending June 30, 2016 by \$27.96 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide financial statements**

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

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

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

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

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

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

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

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

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

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

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

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

### **Notes to the Financial Statements**

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

### **Other Information**

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

**THE CITY AS A WHOLE—Government-wide Financial Analysis**

The City's combined net position was \$27.96 million as of June 30, 2016 as compared to \$27.89 million at June 30, 2015. Prior year net position for the Governmental Activities was restated as of June 30, 2015 at \$527,230. This was a reduction in net position of \$3,405,758 due to a correction of an error to present the proportionate share of the City's net pension liability for the hazardous pension liability of the Kentucky Retirement System. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net position is \$27.89 million. This analysis focuses on the net position and changes in general revenues and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net position (97 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Summary of Net Position**  
June 30, 2016

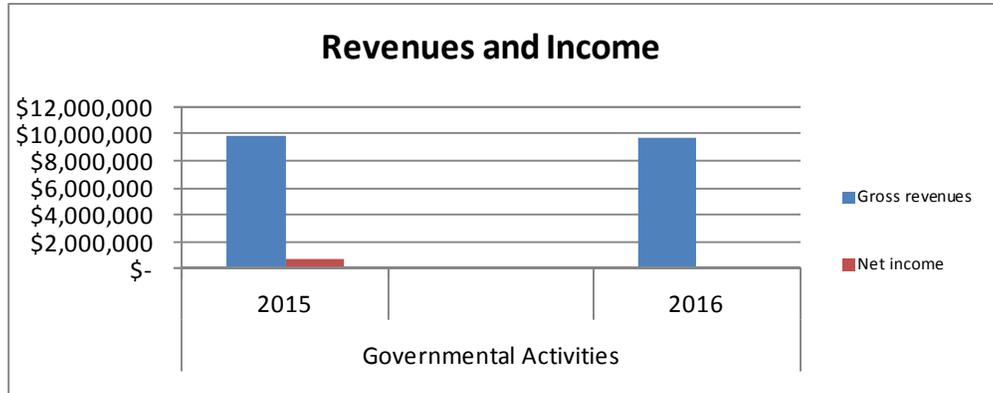
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current and Other Assets	\$ 2,798,765	\$ 2,207,849	\$ 4,804,906	\$ 4,052,343	\$ 7,603,671	\$ 6,260,192
Capital Assets	5,923,672	6,100,224	34,133,763	31,855,758	40,057,435	37,955,982
Total Assets	8,722,437	8,308,073	38,938,669	35,908,101	47,661,106	44,216,174
Deferred Outflow s of Resources	1,403,503	585,123	427,069	235,965	1,830,572	-
Total Deferred Outflow s	1,403,503	585,123	427,069	235,965	1,830,572	-
<b>Liabilities:</b>						
Long-term Liabilities	9,304,044	7,293,437	10,037,362	7,711,232	19,341,406	15,004,669
Other Liabilities	687,629	572,529	1,005,563	872,573	1,693,192	1,445,102
Total Liabilities	9,991,673	7,865,966	11,042,925	8,583,805	21,034,598	16,449,771
Deferred Inflow of Resources	375,000	500,000	117,600	196,000	20,759	696,000
Total Deferred Inflow s	375,000	500,000	117,600	196,000	20,759	696,000
<b>Net Position:</b>						
Invested in Capital Assets						
Net of Related Debt	4,469,840	4,569,377	26,275,188	25,842,167	30,745,028	30,411,544
Restricted	-	-	2,910,378	2,700,991	2,910,378	2,700,991
Unrestricted	(4,710,573)	(4,042,147)	(980,353)	(1,178,897)	(5,690,926)	(5,221,044)
Total Net Position	\$ (240,733)	\$ 527,230	\$ 28,205,213	\$ 27,364,261	\$ 27,964,480	\$ 27,891,491

**Governmental Activities**

The City's general revenues increased by \$379,904 compared to the prior year. The majority of the increase is due to an increase in collected taxes. The following table is a detail of general revenues.

	2016	2015	Increase/ (Decrease)
Taxes	\$ 5,253,171	\$ 4,998,439	\$ 254,732
Franchise fees and Permits	475,785	496,997	(21,212)
Other Income/(Expense)	397,627	251,243	146,384
Total General Revenue	\$ 6,126,583	\$ 5,746,679	\$ 379,904

The following chart shows the Governmental Activities gross revenues as compared to net income for the years June 30, 2016 and 2015.

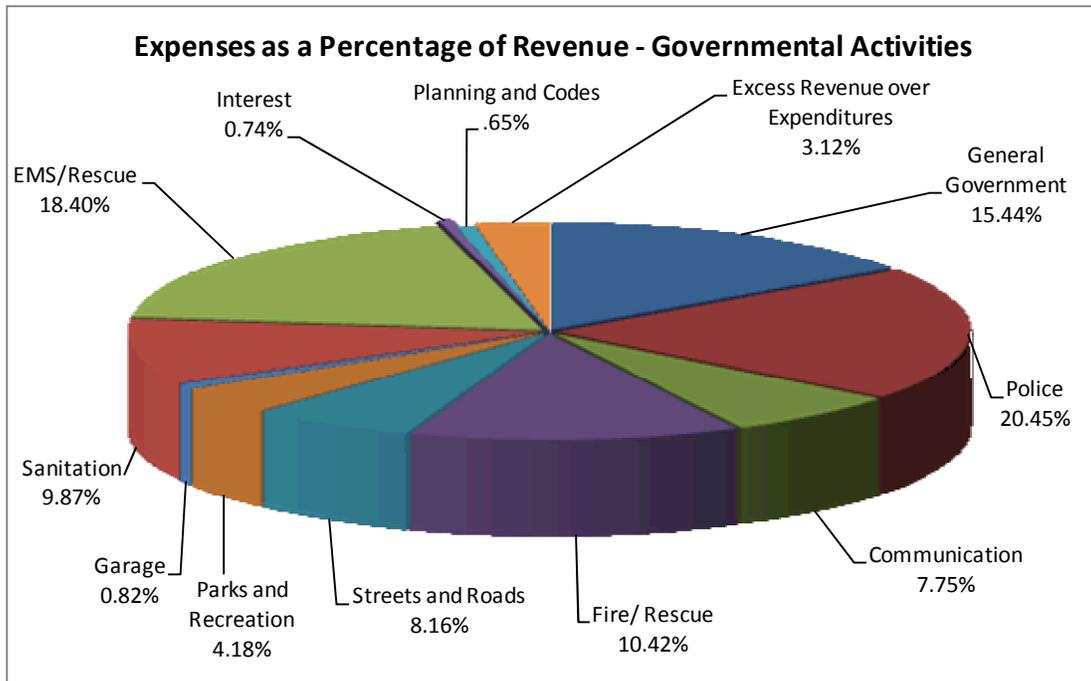


Governmental and Business type activities increased the City's net position by \$73 thousand. The key elements of this increase are as follows:

REVENUES	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 2,603,903	\$ 2,408,894	\$ 5,362,660	\$ 4,657,300	\$ 7,966,563	\$ 7,066,194
Operating Grants and Contributions	1,108,281	1,088,293	0	379,286	1,108,281	1,467,579
Capital Grants and Contributions	434,638	522,787	1,116,144	122,421	1,550,782	645,208
General Revenues						
Taxes	5,253,171	4,998,439	-	-	5,253,171	4,998,439
Franchise Fees/Permits	475,785	496,997	-	-	475,785	496,997
Other Income	394,028	248,434	33,807	45,802	427,835	294,236
<b>TOTAL REVENUES</b>	<b>10,269,806</b>	<b>9,763,844</b>	<b>6,512,611</b>	<b>5,204,809</b>	<b>16,782,417</b>	<b>14,968,653</b>
EXPENSES						
General Government	1,730,488	1,512,083	-	-	1,730,488	1,512,083
Police	2,310,962	2,066,083	-	-	2,310,962	2,066,083
Communication	789,558	777,432	-	-	789,558	777,432
Fire / Rescue	1,472,311	1,148,695	-	-	1,472,311	1,148,695
EMS/Rescue	2,160,533	1,777,751	-	-	2,160,533	1,777,751
Streets and Roads	734,600	827,903	-	-	734,600	827,903
Planning and Codes	83,446	62,549	-	-	83,446	62,549
Recreation and Parks	478,800	420,492	-	-	478,800	420,492
Garage	95,776	78,813	-	-	95,776	-
Sanitation and Landfill	1,131,305	985,664	-	-	1,131,305	985,664
Interest	53,589	71,020	139,913	116,398	193,502	187,418
Water and Sewer	-	-	4,399,027	3,902,208	4,399,027	3,902,208
Depreciation	-	-	1,129,120	1,103,605	1,129,120	1,103,605
<b>TOTAL EXPENSES</b>	<b>11,041,368</b>	<b>9,728,485</b>	<b>5,668,060</b>	<b>5,122,211</b>	<b>16,709,428</b>	<b>14,850,696</b>
Increase in net assets before transfers	(771,562)	35,359	844,551	82,598	72,989	117,957
Transfers	3,599	2,809	(3,599)	(2,809)	-	-
<b>Increase in Net Position</b>	<b>(767,963)</b>	<b>38,168</b>	<b>840,952</b>	<b>79,789</b>	<b>72,989</b>	<b>117,957</b>
Net Position, July 1, restated	527,230	3,894,820	27,364,261	27,284,472	27,891,491	31,179,292
<b>Net Position, June 30</b>	<b>\$ (240,733)</b>	<b>\$ 3,932,988</b>	<b>\$28,205,213</b>	<b>\$27,364,261</b>	<b>\$27,964,480</b>	<b>\$31,297,249</b>

The most significant governmental expenses for the City was in providing for public safety, which incurred expenses of \$6.72 million. These expenses were offset by revenues collected from a variety of sources, with the largest being from medic runs, which are \$1.48 million for the fiscal year ending June 30, 2016. The major components of public safety are police, fire/rescue and EMS. Police accounted for \$2.31 million in public safety expense of which \$1.56 million was incurred for salary and benefits. Fire/rescue accounted for \$1.47 million in public safety expense, of which \$710,062 was incurred for salary and benefits. EMS accounted for \$2.16 million in public safety expense of which \$1.42 million was for salary and benefits. Communications accounted for \$789,558 in public safety expenses of which \$561,952 was for salary and benefits.

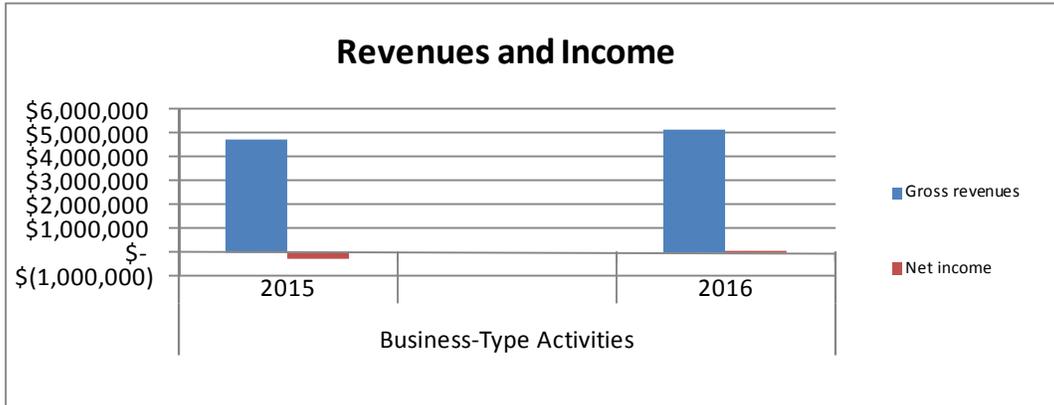
The following pie chart shows the Governmental Activities expenses as a percentage of revenue.



**Business-type Activities**

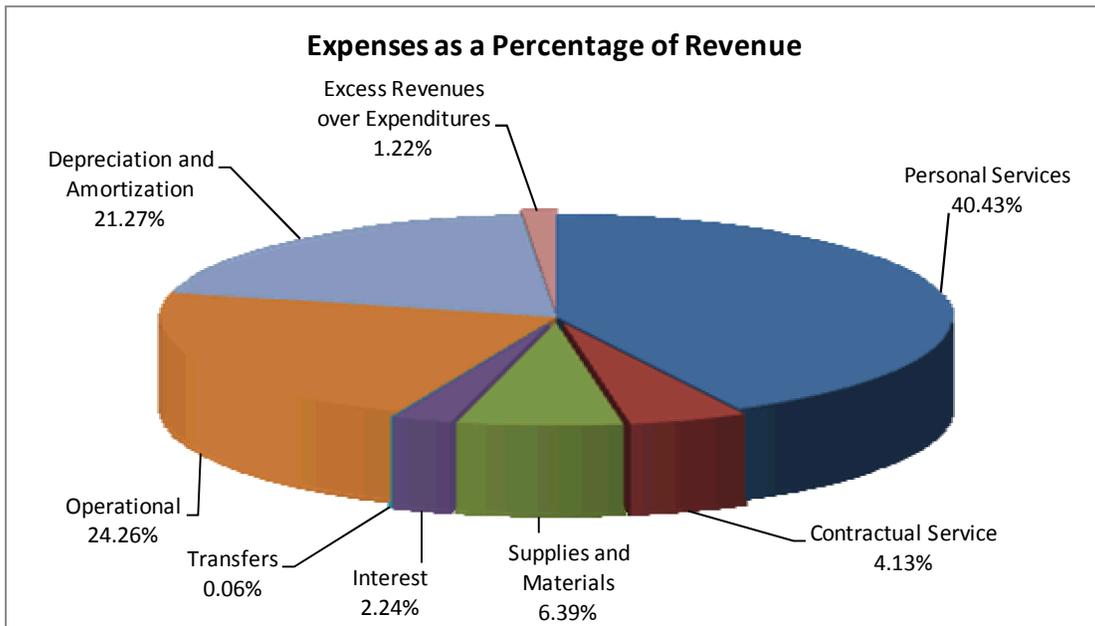
Operating revenues of the City's business-type activities were \$5.36 million for the fiscal year ending June 30, 2016. Operating expenses for the City's business-type activities were \$5.53 million for the year, resulting in net operating expenses over revenues of \$165,487 before non-operating revenues and expenses, capital contributions, grants and extraordinary income.

The following graph shows the business-type activities gross revenues as compared to net income for the years ended June 30, 2016 and 2015.



The City's water and sewer system's most significant expenses were \$2.44 million in salaries and benefits.

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



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year 2016, the City had \$30,745,026 net invested in a broad range of capital assets, as compared to \$30,411,544 in fiscal year 2015, including police, fire and rescue equipment, buildings, park facilities, and water and sewer lines.

**Debt**

At year-end, the City had \$9,312,407 in General Obligation Bonds, Notes and Capital Lease Obligations outstanding as compared to \$7,544,438 at June 30, 2015.

**CURRENT ECONOMIC EVENTS**

Currently, there is a decrease of 1.89% for the City's hazardous retirement contribution match requirement and a 1.62% increase in the city's non-hazardous retirement contribution requirement compared to the fiscal year ended June 30, 2016.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

CITY OF CAMPBELLSVILLE, KENTUCKY  
STATEMENT OF NET POSITION  
June 30, 2016

	Governmental Activities	Business Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,547,923	\$ 889,256	\$ 2,437,179
Accounts receivable, net of allowance	1,092,433	772,690	1,865,123
Other	139,983	17,170	157,153
Inventory	-	215,412	215,412
Restricted assets			
Cash and cash equivalents	18,426	2,910,378	2,928,804
Total current assets	2,798,765	4,804,906	7,603,671
Noncurrent assets:			
Land and construction in progress	2,597,810	1,997,053	4,594,863
Other capital assets, net of depreciation	3,325,862	32,136,710	35,462,572
Total noncurrent assets	5,923,672	34,133,763	40,057,435
Total assets	8,722,437	38,938,669	47,661,106
Deferred outflows of resources			
Pension	839,368	266,904	1,106,272
Pension Contributions	564,135	160,165	724,300

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY  
STATEMENT OF NET POSITION  
June 30, 2016

	Governmental Activities	Business Type Activities	Total
Liabilities:			
Current liabilities:			
Checks issued in excess of cash	\$ 29,974	\$ -	\$ 29,974
Accounts payable - trade	134,639	176,906	311,545
Accounts payable - construction in progress		17,170	17,170
Accrued payroll and related expenses	339,784	95,227	435,011
Customer deposits	-	139,057	139,057
Interest payable	-	42,088	42,088
Current portion of capital leases	119,550	-	119,550
Current portion of notes payable	62,632	334,410	397,042
Current portion of bonds payable	-	169,100	169,100
Current portion of compensated absences		31,605	31,605
Unearned revenue	1,050	-	1,050
Total current liabilities	<u>687,629</u>	<u>1,005,563</u>	<u>1,693,192</u>
Noncurrent liabilities:			
Noncurrent portion of capital leases	72,511	-	72,511
Noncurrent portion of notes payable	1,199,139	3,388,865	4,588,004
Noncurrent portion of bonds payable	-	3,966,200	3,966,200
Noncurrent portion of compensated absences	-	240,174	240,174
Net pension liability	8,032,394	2,442,123	10,474,517
Total noncurrent liabilities	<u>9,304,044</u>	<u>10,037,362</u>	<u>19,341,406</u>
Total liabilities	<u>9,991,673</u>	<u>11,042,925</u>	<u>21,034,598</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>375,000</u>	<u>117,600</u>	<u>492,600</u>
Net position:			
Net investment in capital assets	4,469,840	26,275,188	30,745,028
Restricted for:			
Debt service	-	2,902,716	2,902,716
Employee benefits	-	7,662	7,662
Unrestricted	<u>(4,710,573)</u>	<u>(980,353)</u>	<u>(5,690,926)</u>
Total net position	<u>\$ (240,733)</u>	<u>\$28,205,213</u>	<u>\$27,964,480</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expense	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General government	\$ 1,730,488	\$ 7,620	\$ 288,804	\$ 271,250	\$ (1,162,814)	\$ -	\$ (1,162,814)
Public safety:							
Police	2,310,962	5,400	95,593	7,500	(2,202,469)	-	(2,202,469)
Communication	789,558	-	-	-	(789,558)	-	(789,558)
Fire/ rescue	1,472,311	11,671	33,096	155,888	(1,271,656)	-	(1,271,656)
EMS	2,160,533	1,488,984	491,037	-	(180,512)	-	(180,512)
Streets and roads	734,600	-	199,751	-	(534,849)	-	(534,849)
Planning and codes	83,446	-	-	-	(83,446)	-	(83,446)
Recreation and parks	478,800	36,614	-	-	(442,186)	-	(442,186)
Garage	95,776	-	-	-	(95,776)	-	(95,776)
Sanitation and landfill	1,131,305	1,053,614	-	-	(77,691)	-	(77,691)
Interest on long-term debt	53,589	-	-	-	(53,589)	-	(53,589)
Total governmental activities	11,041,368	2,603,903	1,108,281	434,638	(6,894,546)	-	(6,894,546)
Business-type activities							
Water	4,028,037	3,813,029	-	923,231	-	708,223	708,223
Sewer	1,640,023	1,549,631	-	192,913	-	102,521	102,521
Total business-type activities	5,668,060	5,362,660	-	1,116,144	-	810,744	810,744
Total government	\$ 16,709,428	\$ 7,966,563	\$ 1,108,281	\$ 1,550,782	(6,894,546)	810,744	(6,083,802)
General Revenues							
Taxes:							
Property taxes					1,197,890	-	1,197,890
Occupational					2,601,383	-	2,601,383
Insurance premium					1,453,898	-	1,453,898
Franchise fees/permits					475,785	-	475,785
Investment earnings					-	33,807	33,807
Gain (loss) on sale of assets					16,108	-	16,108
Other income					377,920	-	377,920
Transfers, net					3,599	(3,599)	-
Total General Revenue and Special Items					6,126,583	30,208	6,156,791
Change in Net Position					(767,963)	840,952	72,989
Net Position - Beginning, Restated					527,230	27,364,261	27,891,491
Net Position - Ending					\$ (240,733)	\$ 28,205,213	\$ 27,964,480

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2016

	General	Special Revenue	Totals - Memorandum Only June 30, 2016
	<u>General</u>	<u>Special Revenue</u>	<u>June 30, 2016</u>
<b>Assets and resources:</b>			
Cash and cash equivalents	\$ 1,547,923	\$ -	\$ 1,547,923
Receivables (net of allowances)			
Accounts, general	1,092,433	-	1,092,433
State of Kentucky	6,785	-	6,785
Other	102,174	31,024	133,198
Restricted cash	18,426	-	18,426
Total assets and resources	<u>\$ 2,767,741</u>	<u>\$ 31,024</u>	<u>\$ 2,798,765</u>
<b>Liabilities and fund balance:</b>			
Checks issued in excess of cash	\$ -	\$ 29,974	\$ 29,974
Accounts payable	134,639	-	134,639
Accrued payroll and related expenses	339,784	-	339,784
Unearned Revenue	-	1,050	1,050
Total liabilities	<u>474,423</u>	<u>31,024</u>	<u>505,447</u>
<b>Fund balance</b>			
Unassigned fund balance	<u>2,293,318</u>	-	<u>2,293,318</u>
Total fund balance	<u>2,293,318</u>	-	<u>2,293,318</u>
Total liabilities and fund balance	<u>\$ 2,767,741</u>	<u>\$ 31,024</u>	<u>\$ 2,798,765</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
June 30, 2016

Total fund balance per fund financial statements \$ 2,293,318

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

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

Capital Assets, Net	\$ 5,923,672	5,923,672
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Deferred outflows, deferred inflows and certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Deferred Outflows	1,403,503	
Deferred Inflows	(375,000)	
Net pension liability	(8,032,394)	
Long-Term Debt Payable	<u>(1,453,832)</u>	<u>(8,457,723)</u>

Net position for governmental activities	<u>\$ (240,733)</u>
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CITY OF CAMPBELLSVILLE, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended June 30, 2016

	Governmental Fund Types		Totals - Memorandum Only June 30,
	General	Special Revenue	2016
Revenues			
Taxes			
Occupational tax	\$ 2,601,383	\$ -	\$ 2,601,383
Property	1,197,890	-	1,197,890
Insurance premium	1,453,898	-	1,453,898
Franchise fees/permits	475,785	-	475,785
Intergovernmental revenues	1,127,581	407,838	1,535,419
Charges for services	2,603,903	-	2,603,903
Other Income	381,519	-	381,519
Total revenues	<u>9,841,959</u>	<u>407,838</u>	<u>10,249,797</u>
Expenditures			
General government	1,424,795	342,726	1,767,521
Public safety:			
Police	1,737,898	28,652	1,766,550
Communication	728,653	-	728,653
Fire/ rescue	1,069,281	87,212	1,156,493
Planning and codes	74,300	-	74,300
Streets and roads	648,630	-	648,630
Recreation and parks	441,145	-	441,145
Garage	84,294	-	84,294
Sanitation and landfill	1,027,093	-	1,027,093
EMS	1,811,627	-	1,811,627
Debt service			
Principal retirement	227,328	-	227,328
Interest and fiscal charges	59,683	-	59,683
Total expenditures	<u>9,334,727</u>	<u>458,590</u>	<u>9,793,317</u>
Excess revenues over (under) expenditures	507,232	(50,752)	456,480
Other financing sources (uses)			
Transfers in	-	50,752	50,752
Transfers out	(50,752)	-	(50,752)
Loan proceeds	-	-	-
Sale of fixed assets	16,108	-	16,108
Total other financing sources (uses)	<u>(34,644)</u>	<u>50,752</u>	<u>16,108</u>
Excess of revenues and other sources over (under) expenditures and other uses	472,588	-	472,588
Fund balances - beginning of year	<u>1,820,730</u>	<u>-</u>	<u>1,820,730</u>
Fund balances - end of year	<u>\$ 2,293,318</u>	<u>\$ -</u>	<u>\$ 2,293,318</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSVILLE, KENTUCKY  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

Net change in total fund balances per fund financial statements \$ 472,588

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

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

Depreciation Expense	\$ (617,198)	
Capital Outlays	<u>440,646</u>	(176,552)

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

Proceeds from Long-Term Debt	(156,407)	(156,407)
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In the statement of activities the net gain on the sale/disposal of assets is reported, whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from the change in fund balances by the cost of the assets sold/disposed.

Actual Proceeds from Sale of Assets	(16,108)	
Gain/(Loss) on Sale/Disposal of Assets	<u>16,108</u>	-

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

Net pension liability	(2,084,394)	
Deferred outflows of resources	818,380	
Deferred inflows of resources	<u>125,000</u>	(1,141,014)

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

Note Payments	65,867	
Lease Payments	<u>167,555</u>	<u>233,422</u>

Change in net assets of governmental activities \$ (767,963)

CITY OF CAMPBELLSVILLE, KENTUCKY  
 PROPRIETARY FUND  
 CAMPBELLSVILLE MUNICIPAL WATER AND SEWER SYSTEM  
 STATEMENT OF NET POSITION  
 June 30, 2016

Assets:	
Current assets:	
Cash and cash equivalents	\$ 889,256
Accounts receivable - trade (net of allowance)	772,690
Accounts receivable - other	17,170
Inventory	215,412
Restricted cash and cash equivalents	<u>2,910,378</u>
Total current assets	<u>4,804,906</u>
Noncurrent assets:	
Land and construction in progress	1,997,053
Capital assets net of accumulated depreciation	<u>32,136,710</u>
Total noncurrent assets	<u>34,133,763</u>
Total assets	<u>38,938,669</u>
Deferred outflows of resources:	
Pension	266,904
Pension contributions	<u>160,165</u>
Total deferred outflows of resources	427,069
Liabilities:	
Current liabilities:	
Accounts payable - trade	176,906
Accounts payable - construction in progress	17,170
Accrued payroll and related expenses	95,227
Customer deposits	139,057
Accrued interest	42,088
Current portion of notes payable	334,410
Current portion of bonds payable	169,100
Current portion of compensated absences	<u>31,605</u>
Total current liabilities	<u>1,005,563</u>
Noncurrent liabilities:	
Noncurrent portion of notes payable	3,388,865
Noncurrent portion of bonds payable	3,966,200
Noncurrent portion of compensated absences	240,174
Net pension liability	<u>2,442,123</u>
Total noncurrent liabilities	<u>10,037,362</u>
Total liabilities	<u>11,042,925</u>
Deferred inflows of resources:	
Net difference between projected and actual earnings on pension plan investments	<u>117,600</u>
Net position	
Net investment in capital assets	26,275,188
Restricted for:	
Debt service	2,902,716
Employee benefits	7,662
Unrestricted	<u>(980,353)</u>
Total net position	<u>\$ 28,205,213</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLVILLE, KENTUCKY  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN FUND NET POSITION - PROPRIETARY FUND  
 For the Year Ended June 30, 2016

	Business-Type Activities Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 3,710,204	\$ 1,549,631	\$ 5,259,835
Service charges and other	102,825	-	102,825
	<hr/>	<hr/>	<hr/>
Total operating revenues	3,813,029	1,549,631	5,362,660
Operating expenses:			
Personal service	1,654,440	784,583	2,439,023
Contractual service	144,186	134,443	278,629
Supplies and materials	324,507	65,808	390,315
Operational	945,109	345,951	1,291,060
Depreciation and amortization	819,882	309,238	1,129,120
	<hr/>	<hr/>	<hr/>
Total operating expenses	3,888,124	1,640,023	5,528,147
Operating income (loss)	(75,095)	(90,392)	(165,487)
Non-operating revenues(expenses):			
Interest revenue	33,807	-	33,807
Interest expense and fiscal charges	(97,146)	(42,767)	(139,913)
Gain/(loss) on disposition of assets	0	-	-
Operating transfers out	(3,599)	-	(3,599)
	<hr/>	<hr/>	<hr/>
Total non-operating revenue (expenses)	(66,938)	(42,767)	(109,705)
Net income (loss) before capital contributions and grants	(142,033)	(133,159)	(275,192)
Capital contributions	243,492	192,913	436,405
Grants	679,739	-	679,739
	<hr/>	<hr/>	<hr/>
Total capital contributions and grants	923,231	192,913	1,116,144
Change in net position	781,198	- 59,754	- 840,952
Net position - beginning of year	23,204,156	4,160,105	27,364,261
	<hr/>	<hr/>	<hr/>
Net position - end of year	\$ 23,985,354	\$ 4,219,859	\$ 28,205,213
	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

CITY OF CAMPBELLVILLE, KENTUCKY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 4,962,218
Cash payments to employees for services	(2,052,206)
Customer deposits received	81,000
Customer deposits returned	(70,290)
Cash payments to suppliers for goods and services	(1,813,481)
Net cash provided/(used) by operating activities	<u>1,107,241</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets and construction in progress	(3,407,125)
Grants received	679,739
Disposal of capital assets net of gain	-
Increase in debt	3,390,828
Principal paid on bonds and notes	(1,545,844)
Interest paid on debt	(120,176)
Decrease in amount due from City	30,430
Contributed capital	436,405
Decrease in compensated absences	-
Transfers	(3,599)
Net cash provided/(used) by capital and related financing activities	<u>(539,342)</u>
Cash flows from investing activities:	
Interest	33,807
Net cash provided/(used) by investing activities	<u>33,807</u>
Net increase/(decrease) in cash and cash equivalents	
	601,706
Cash and cash equivalents – beginning of year	
	3,197,928
Cash and cash equivalents – end of year	
	<u>\$ 3,799,634</u>
Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents	\$ 889,256
Restricted cash and cash equivalents	2,910,378
Total cash and cash equivalents	<u>\$ 3,799,634</u>
Reconciliation of operating income (loss) to net cash provided/(used) for operating activities:	
Operating income (loss)	\$ (165,487)
Adjustments to reconcile operating income/(loss) to net cash provided/ (used) for operating activities:	
Depreciation and amortization	1,129,120
Change in Assets and Liabilities:	
(Increase)/decrease in accounts receivable	(400,442)
(Increase)/decrease in deferred outflows	(191,104)
(Increase)/decrease in inventory	22,216
Increase/(decrease) in accounts payable	124,307
Increase/(decrease) in salaries and accrued w/h taxes	7,624
Increase/(decrease) in compensated absences	(33,426)
Increase/(decrease) in customer deposits	10,710
Increase/(decrease) in net pension liability	682,123
Increase/(decrease) in deferred inflows	(78,400)
Total reconciling adjustments	<u>1,272,728</u>
Net cash provided/ (used) by operating activities	
	<u>\$ 1,107,241</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. For the most part, the effect of inter-fund activity has been removed from these statements. Certain eliminations have been made as prescribed by GASB Statement No 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the City's assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

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

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

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

None of the net position is restricted by enabling legislation.

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

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

CITY OF CAMPBELLSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City has the following governmental funds:

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

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

The City has the following major proprietary funds:

Campbellsville Municipal Water and Sewer System

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

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

CITY OF CAMPBELLSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

*Deposits and Investments* - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with an original maturity of three months or less from the date of acquisition. Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, federally insured savings accounts and certificates of deposits. Investments are carried at fair value. Deposits are carried at cost plus accrued interest.

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

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

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

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

*Allowance for Doubtful Accounts* – The Campbellsville Water & Sewer Company's valuation method of estimating the allowance for doubtful accounts is based upon a percentage (3%) of total sales. The allowance for doubtful accounts for the governmental funds is based upon historical experience in collecting medic run revenue. The allowance for doubtful accounts for Campbellsville Water and Sewer Company at June 30, 2016 was \$157,795. The allowance for doubtful accounts for the governmental funds at June 30, 2016 was \$31,953.

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

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

CITY OF CAMPBELLVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2016

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

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

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

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

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

*Compensated Absences* - The Proprietary Fund (Campbellsville Water and Sewer) employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon termination, retirement, or death. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Water Company's past experience of making termination payments. The compensated absences liability, if any, has been computed based on rates of pay in effect as of June 30, 2016. The entire compensated absence liability is reported on the government-wide financial statements.

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

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

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

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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

Fund Balance Reserves

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

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

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

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

NOTE 2: BUDGET AND BUDGETARY ACCOUNTING

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

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

General Fund  
Special Revenue

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

CITY OF CAMPBELLSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2016

NOTE 3: DEPOSITS AND INVESTMENTS

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

At June 30, 2016, the carrying amount of the City’s cash and cash equivalents (cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less) was \$1,536,375 while the bank statements totaled \$1,815,076. Of the total bank balances, \$552,115 was insured by FDIC; collateral agreements were executed and collateral, with a FMV of \$2,073,487, was pledged and held by the pledging bank’s trust departments in the City’s name for the purpose of securing the remainder of the deposits.

At June 30, 2016, the carry amount of the Water Company’s cash and cash equivalents was \$3,799,634, while the bank statements totaled \$3,839,454. Of the total bank balances, \$500,000 was insured by FDIC; collateral agreements were executed and collateral, with a FMV of \$3,135,242, was pledged and held by the pledging bank’s trust departments in the Water Company’s name and a \$1,000,000 letter of credit from Federal Home Loan Bank of Cincinnati to secure the remainder of the deposits.

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

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

	<u>Business Type</u>	<u>Governmental</u>
Debt Reserve Account	\$ 1,670,587	\$ -
Construction Account	567,842	-
Depreciation Replacement Account	323,688	-
USDA Reserve	199,431	-
Customer Performance Deposit	111,276	-
Customer Escrow Security Deposit	29,437	-
Flexible Spending Account	4,915	11,457
HRA Insurance Account	2,747	6,969
North Bypass Sewer Account	420	-
Downtown Water Lines Account	35	-
	<u>\$ 2,910,378</u>	<u>\$ 18,426</u>

NOTE 4: CAPITAL ASSETS

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

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

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

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

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 4: CAPITAL ASSETS – (CONTINUED)

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance at Beginning of Year	Transfers and Additions	Transfers and Deductions	Balance at End of Year
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 2,597,810	\$ -	\$ -	\$ 2,597,810
Construction In Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>2,597,810</u>	<u>-</u>	<u>-</u>	<u>2,597,810</u>
Capital Assets Being Depreciated				
Buildings and Improvements	3,887,922	114,940	-	4,002,862
General Equipment and Vehicles	9,927,682	325,706	356,994	9,896,394
Total Capital Assets Being Depreciated	<u>13,815,604</u>	<u>440,646</u>	<u>356,994</u>	<u>13,899,256</u>
Less: Accumulated Depreciation				
Buildings and Improvements	2,969,390	116,720	-	3,086,110
General Equipment and Vehicles	7,343,800	500,478	356,994	7,487,284
Total Accumulated Depreciation	<u>10,313,190</u>	<u>617,198</u>	<u>356,994</u>	<u>10,573,394</u>
Total Capital Assets Being Depreciated, Net	<u>3,502,414</u>	<u>(176,552)</u>	<u>-</u>	<u>3,325,862</u>
Governmental Activities Capital Assets - Net	<u>\$ 6,100,224</u>	<u>\$ (176,552)</u>	<u>\$ -</u>	<u>\$ 5,923,672</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 708,368	\$ 50,000	\$ -	\$ 758,368
Construction In Progress	305,925	1,238,685	305,925	1,238,685
Total Capital Assets, Not Being Depreciated	<u>1,014,293</u>	<u>1,288,685</u>	<u>305,925</u>	<u>1,997,053</u>
Capital Assets Being Depreciated				
Source of Supply	6,147,184	33,142	-	6,180,326
Buildings & Improvements	9,195,810	995,109	-	10,190,919
Machinery and Equipment	813,174	86,089	-	899,263
Water System	22,543,922	1,053,199	22,905	23,574,216
Sewer System	16,160,542	256,827	7,161	16,410,208
Total Capital Assets Being Depreciated	<u>54,860,632</u>	<u>2,424,366</u>	<u>30,066</u>	<u>57,254,932</u>
Less: Accumulated Depreciation				
Source of Supply	1,310,273	109,367	-	1,419,640
Buildings & Improvements	2,573,935	93,353	-	2,667,288
Machinery and Equipment	972,709	91,100	-	1,063,809
Water System	9,446,472	562,841	22,905	9,986,409
Sewer System	9,715,778	272,460	7,161	9,981,076
Total Accumulated Depreciation	<u>24,019,167</u>	<u>1,129,121</u>	<u>30,066</u>	<u>25,118,222</u>
Total Capital Assets Being Depreciated, Net	<u>30,841,465</u>	<u>1,295,245</u>	<u>-</u>	<u>32,136,710</u>
Business-Type Activities Capital Assets - Net	<u>\$ 31,855,758</u>	<u>\$ 2,583,930</u>	<u>\$ 305,925</u>	<u>\$ 34,133,763</u>

CITY OF CAMPBELLSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 5: OPERATING LEASES

As of June 30, 2016, the City had no operating leases.

NOTE 6: CAPITAL LEASES

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

The following schedule presents future minimum lease payments as of June 30, 2016.

Year Ending June 30:	
2017	\$ 119,550
2018	59,355
2019	12,225
2020	6,910
2021	<u>-</u>
Total minimum lease payments	198,040
Less: Interest	<u>(5,979)</u>
Present Value of future minimum lease payments	<u>\$ 192,061</u>

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

NOTE 7: LONG-TERM DEBT

The revenue bonds of the enterprise funds are payable from operations of the Water and Sewer fund. The bonds mature annually in varying amounts through fiscal year 2054 and interest is payable semi-annually ranging from 1.60% to 6.15%. Debt balances and transactions for the year ended June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 169,100	\$ 123,274	\$ 292,374
2018	240,400	118,159	358,559
2019	121,800	109,199	230,999
2020	128,200	105,583	233,783
2021	145,100	101,508	246,608
2022-2026	746,900	440,549	1,187,449
2027-2031	693,100	326,456	1,019,556
2032-2036	348,600	256,640	605,240
2037-2041	412,600	200,213	612,813
2042-2046	490,200	132,743	622,943
2047-2051	431,300	58,512	489,812
2052-2056	208,000	10,535	218,535
	<u>\$4,135,300</u>	<u>\$1,983,371</u>	<u>\$ 6,118,671</u>

The Campbellsville Water and Sewer Company is in the construction phase of the North Water Tank project which is being administered by the United States Department of Agriculture Rural Development. The project specifies that the City is to use interim financing for the project until the construction phase is complete. The Company has acquired interim financing with Citizens Bank & Trust with interest @ 2.0% maturing on September 30, 2017 at which time the accrued interest and principal is due. The balance of the interim financing with Citizens Bank and Trust at June 30, 2016 is \$778,561 all of which is long-term.

CITY OF CAMPBELLVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2016

NOTE 7: LONG-TERM DEBT – (CONTINUED)

The Campbellsville Water and Sewer Company's Downtown Water Line Project is being funded with a loan administered by the Kentucky Infrastructure Authority. Exhibit A of the Project Specifics outlines the terms of financing up to \$1,218,750 to be paid with monthly installments including interest @ 1% beginning upon project completion. Interest is to be paid monthly on the financed amount until project completion upon which time the note will be set up on installments over twenty years. The balance of the loan at June 30, 2016 is \$1,218,741.

As of June 30, 2016, annual debt service requirements for the Enterprise Fund (Campbellsville Water and Sewer) activity loans to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 334,410	\$ 47,211	\$ 381,621
2018	1,121,156	43,766	1,164,922
2019	252,120	31,752	283,872
2020	256,762	26,950	283,712
2021	169,291	22,773	192,064
2022-2026	723,378	81,959	805,337
2027-3031	538,314	31,179	569,493
2032-2036	327,844	9,082	336,926
	<u>\$3,723,275</u>	<u>\$ 294,672</u>	<u>\$ 4,017,947</u>

In December 2011, the City purchased approximately 180 acres of what was formerly known as the Dowell property and financed the purchase with a 240 month commercial installment note dated December 21, 2011 with Taylor County Bank for \$1,500,000. Monthly payments are \$8,866.54 a month including a current interest rate of 3.5%. The balance of the loan at June 30, 2016 is \$1,261,771.

As of June 30, 2016, annual debt service requirements for the governmental activity loans to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 62,632	\$ 43,766	\$ 106,398
2018	64,891	41,507	106,398
2019	67,232	39,167	106,399
2020	69,557	36,842	106,399
2021	72,166	34,233	106,399
2022-2026	401,726	130,266	531,992
2027-3031	479,629	52,363	531,992
2032-2036	43,938	392	44,330
	<u>\$1,261,771</u>	<u>\$ 378,536</u>	<u>\$ 1,640,307</u>

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 7: LONG-TERM DEBT - (CONTINUED)

Long-term liabilities for the year ended June 30, 2016 was as follows:

	Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amount Due Within One Year
<b>Governmental Activities:</b>					
Notes Payable	\$ 1,327,638	\$ -	\$ 65,867	\$ 1,261,771	\$ 62,632
Capital Leases Payable	203,209	156,407	167,555	192,061	119,550
Net Pension Liability	5,948,000	2,084,394	0	8,032,394	-
<b>Long-term Liabilities</b>	<b>\$ 7,478,847</b>	<b>\$ 2,240,801</b>	<b>\$ 233,422</b>	<b>\$ 9,486,226</b>	<b>\$ 182,182</b>
<b>Business-type Activities:</b>					
Revenue Bonds Payable	\$ 2,605,000	\$ 1,650,000	\$ 119,700	\$ 4,135,300	\$ 169,100
Notes Payable	3,408,591	1,740,827	1,426,143	3,723,275	334,410
Compensated Absences	305,205	-	33,426	271,779	31,605
Net Pension Liability	1,760,000	682,123	-	2,442,123	-
<b>Long-term Liabilities</b>	<b>\$ 8,078,796</b>	<b>\$ 4,072,950</b>	<b>\$ 1,579,269</b>	<b>\$ 10,572,477</b>	<b>\$ 535,115</b>

NOTE 8: PENSION AND RETIREMENT SYSTEMS

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

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

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

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

CITY OF CAMPBELLVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2016

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

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

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

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

The City's contribution requirement for CERS for the years ended June 30, 2016, 2015, and 2014 was \$564,135, \$580,060, and \$585,348 from the City and \$225,055, \$225,736, and \$214,020 from employees. The total covered payroll for CERS during the years ended June 30, 2016, 2015 and 2014 was \$3,712,758, \$3,708,527, and \$3,501,367.

The Campbellsville Water and Sewer Company (Company) contribution requirement for CERS for the years ended June 30, 2016, 2015, and 2014 was \$160,165, \$168,979, and 171,516 from the Company and \$64,479, \$66,266 and 64,441 from employees. The total covered payroll for CERS during the years ended June 30, 2016, 2015 and 2014 was \$1,289,573, \$1,325,325, and \$1,248,295.

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

**City of Campbellsville**

At June 30, 2016, the City reported a liability of \$4,191,567 for its non-hazardous proportionate share of the net pension liability for CERS and a liability of 3,840,827 for its hazardous proportionate share of the net pension liability for a total net pension liability for the City of 8,032,394 at June 30, 2016. The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the City's non-hazardous proportion was 0.097489% percent and the City's hazardous proportion was .250199%.

CITY OF CAMPBELLSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

For the year ended June 30, 2016, the City recognized pension expense of \$1,141,014. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 88,691	\$ -
Changes of assumptions	565,939	-
Net difference between projected and actual earnings on pension plan investments	49,355	375,000
Changes in proportion and differences between City contributions and proportionate share of contributions	135,383	-
City contributions subsequent to the measurement date	564,135	-
Total	\$ 1,403,503	\$ 375,000

\$564,135 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	150,674
2018	150,677
2019	150,679
2020	12,338

**Campbellsville Water and Sewer**

At June 30, 2016, Campbellsville Water and Sewer (Company) reported a liability of \$2,442,123 for its proportionate share of the net pension liability for CERS. The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Company's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the Company's proportion was 0.056800% percent.

CITY OF CAMPBELLSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

For the year ended June 30, 2016, the Company recognized pension expense of \$385,439. At June 30, 2016, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 15,221	\$ -
Changes of assumptions	184,696	-
Net difference between projected and actual earnings on pension plan investments	17,514	117,600
Changes in proportion and differences between Company contributions and proportionate share of contributions	49,473	-
Company contributions subsequent to the measurement date	160,165	-
<b>Total</b>	<b>\$ 427,069</b>	<b>\$ 117,600</b>

\$160,165 reported as deferred outflows of resources related to pensions resulting from Company contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	48,309
2018	48,308
2019	48,309
2020	4,378

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

	CERS
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

CITY OF CAMPBELLSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2016

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

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

*Long-term rate of return:* For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated

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

*Discount rate*—for CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
City's proportionate share of net pension liability-non hazardous	5,348,852	4,191,567	3,197,250
City's proportionate share of net pension liability- hazardous	4,916,390	3,840,827	2,949,704
Campbellsville Water and Sewer's proportionate share of net pension liability	3,117,673	2,442,123	1,863,574

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

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 8: PENSION AND RETIREMENT SYSTEMS – (CONTINUED)

DEFERRED COMPENSATION:

The City also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The City does not contribute to these plans. For the year ended June 30, 2015, employee contributed approximately \$60,051 to the plan.

NOTE 9: RISK MANAGEMENT

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

NOTE 10: LANDFILL CLOSURE AND POSTCLOSURE CARE COST

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

NOTE 11: INTERLOCAL AGREEMENT

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

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

NOTE 12: DEFICIT OPERATING/FUND BALANCES

There are no funds of the City that currently have a deficit fund balance. Additionally, there were no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance

CITY OF CAMPBELLVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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

Governmental Activities:

The beginning net position of the Governmental Activities in the government-wide Statement of Activities has been restated to record a prior period adjustment to correct the City's net pension liability and the associated deferred inflows of resources and deferred outflows of resources related to the City's proportionate share of the City's hazardous retirement with the Kentucky Retirement System. A reconciliation of the prior period ending net position to the current year beginning net position for the Governmental Activities is as follows:

Net Position, July 1, 2015 as Previously Reported	\$ 3,932,988
Net Pension Liability - Hazardous	(2,947,000)
Increase in Deferred Inflows	(165,000)
Decrease in Deferred Outflows	<u>(293,758)</u>
Beginning net position, as restated	<u>\$ 527,230</u>

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

NOTE 14: SUBSEQUENT EVENT

Management has evaluated subsequent events through February 2, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY SCHEDULES

CITY OF CAMPBELLSVILLE, KENTUCKY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - ACTUAL AND BUDGETED (GAAP BASIS)-  
 GOVERNMENTAL FUND TYPE  
 For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Revenues:</b>				
Taxes				
Occupational taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,601,383	\$ 301,383
Property	1,241,500	1,241,500	1,197,890	(43,610)
Insurance	1,450,000	1,450,000	1,453,898	3,898
Franchise fees/permits	489,600	489,600	475,785	(13,815)
Intergovernmental revenues	1,387,949	1,387,949	1,535,419	147,470
Charges for service	2,527,600	2,527,600	2,603,903	76,303
Other income	290,716	290,716	381,519	90,803
<b>Total revenues</b>	<b>9,687,365</b>	<b>9,687,365</b>	<b>10,249,797</b>	<b>562,432</b>
<b>Expenditures:</b>				
General government	2,500,194	2,500,194	1,767,521	(732,673)
Public safety				
Police	1,905,103	1,905,103	1,766,550	(138,553)
Communication	810,910	810,910	728,653	(82,257)
Fire/ rescue	953,415	953,415	1,156,493	203,078
EMS/rescue	1,802,270	1,802,270	1,811,627	9,357
Streets and roads	729,680	729,680	648,630	(81,050)
Planning and codes	71,481	71,481	74,300	2,819
Recreation and parks	455,630	455,630	441,145	(14,485)
Garage	89,095	89,095	84,294	(4,801)
Sanitation and landfill	970,825	970,825	1,027,093	56,268
Debt service	276,200	276,200	287,011	10,811
<b>Total expenditures</b>	<b>10,564,803</b>	<b>10,564,803</b>	<b>9,793,317</b>	<b>(771,486)</b>
<b>Excess revenues over (uinder) expenditures</b>	<b>(877,438)</b>	<b>(877,438)</b>	<b>456,480</b>	<b>1,333,918</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	50,752	50,752
Transfers out	-	-	(50,752)	(50,752)
Sale of fixed assets	15,000	15,000	16,108	1,108
<b>Total other financing sources (used)</b>	<b>15,000</b>	<b>15,000</b>	<b>16,108</b>	<b>1,108</b>
<b>Excess revenues and other sources</b>				
Over (under) expenditures and other uses	(862,438)	(862,438)	472,588	1,335,026
<b>Fund balance - beginning of year</b>	<b>862,438</b>	<b>862,438</b>	<b>1,820,730</b>	<b>958,292</b>
<b>Fund balance - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,293,318</b>	<b>\$ 2,293,318</b>

CITY OF CAMPBELLSVILLE KENTUCKY  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NON-HAZARDOUS NET  
 PENSION LIABILITY  
 June 30, 2016

	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	9.74890%	0.092513%
City's prportionate share of the net pension liability (asset)	\$ 4,191,567	\$ 3,001,000
City's covered-employee payroll	\$ 2,608,983	\$ 2,608,983
City's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	160.66%	115.03%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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

CITY OF CAMPBELLSVILLE KENTUCKY  
 SCHEDULE OF NON-HAZARDOUS CONTRIBUTIONS TO CERS  
 June 30, 2016

	2016	2015*
Contractually required contribution	\$ 297,937	\$ 301,521
Contributions in relation to the contractually required contribution	(297,937)	(301,521)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 2,398,850	\$ 2,364,874
Contributions as a percentage of covered-employee payroll	12.42%	12.75%

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

CITY OF CAMPBELLSVILLE KENTUCKY  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE HAZARDOUS CERS NET PENSION  
 LIABILITY  
 June 30, 2016

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

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

CITY OF CAMPBELLSVILLE KENTUCKY  
 SCHEDULE OF HAZARDOUS CONTRIBUTIONS TO CERS  
 June 30, 2016

	2016	2015*
Contractually required contribution	\$ 266,198	\$ 278,539
Contributions in relation to the contractually required contribution	(266,198)	(278,539)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 1,313,908	\$ 1,343,653
Contributions as a percentage of covered-employee payroll	20.26%	20.73%

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

CAMPBELLSVILLE WATER AND SEWER  
 SCHEDULE OF THE ENTERPRISES'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY  
 June 30, 2016

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

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

CAMPBELLSVILLE WATER AND SEWER  
SCHEDULE OF CONTRIBUTIONS TO CERS  
June 30, 2016

	2016	2015*
Contractually required contribution	\$ 160,165	\$ 168,979
Contributions in relation to the contractually required contribution	(160,165)	(168,979)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 1,289,573	\$ 1,325,325
Contributions as a percentage of covered-employee payroll	12.42%	12.75%

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

CAMPBELLSVILLE WATER AND SEWER  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS  
For the Year Ended June 30, 2016

NOTE 1 – CHANGES OF BENEFIT TERMS

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

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

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

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

NOTE B – CHANGES OF ASSUMPTION

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

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

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

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

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

2015:

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

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF CAMPBELLSVILLE, KENTUCKY  
BALANCE SHEET - SPECIAL REVENUE FUNDS  
June 30, 2016

	Special Revenue	Totals- Memorandum Only June 30, 2016
Assets and resources:		
Cash and investments	\$ -	\$ -
Receivables (net of allowances)		
Other	31,024	31,024
Due from other funds	-	-
Total assets and resources	\$ 31,024	\$ 31,024
Liabilities and fund balance:		
Checks issued in excess of cash	\$ 29,974	\$ 29,974
Unearned revenue	1,050	1,050
Total liabilities	31,024	31,024
Fund balance		
Reserved fund balance	-	-
Total Fund Equity	-	-
Total liabilities and fund balance	\$ 31,024	\$ 31,024

CITY OF CAMPBELLSVILLE, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2016

	Special Revenue	Totals - Memorandum Only June 30, 2016
Revenues:		
Intergovernmental revenues	\$ 407,838	\$ 407,838
Other income	-	-
Total revenues	407,838	407,838
Expenditures:		
General government	342,726	342,726
Public safety:		
Police	28,652	28,652
Communication	-	-
Fire/rescue	87,212	87,212
Sanitation	-	-
Recreation and parks	-	-
Total expenditures	458,590	458,590
Excess revenues over (under) expenditures	(50,752)	(50,752)
Other financing sources (uses)		
Transfers in	50,752	50,752
Transfers out	-	-
Total other financing sources	50,752	50,752
Excess revenues and other sources over (under) expenditures and other uses	-	-
Fund balance - beginning of year	-	-
Fund balance - end of year	\$ -	\$ -

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF CAMPBELLSVILLE, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Pass-Through Grantors Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,226,821
Water and Waste Disposal Systems for Rural Communities	10.760		<u>10,242</u>
Total U.S. Department of Agriculture			1,237,063
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Lake Cumberland Area Community Development Block Grant	14.228	15-005	<u>250,000</u>
Total U.S. Department of Housing and Urban Development			250,000
<u>U.S. Department of the Interior</u>			
Passed Through the Kentucky Heritage Council Historic Preservation Fund Grants-in-Aid	15.904	14-103	<u>4,472</u>
Total U.S. Department of the Interior			4,472
<u>U.S. Department of Transportation</u>			
Passed Through the Kentucky Transportation Cabinet State and Community Highway Safety	20.600	PT-16-08	8,533
State and Community Highway Safety	20.600	M5-15-06	<u>1,795</u>
			10,328
<u>U.S. Department of Transportation</u>			
Passed Through the Kentucky Department of Local Government Recreational Trails Program	20.219	477-13	<u>45,753</u>
Total U.S. Department of Transportation			56,081
<u>U.S. Environmental Protection Agency</u>			
Passed Through the Kentucky Infrastructure Authority Congressionally Mandated Projects	66.202	9N-2014	<u>327,471</u>
Total U.S. Environmental Protection Agency			327,471
<u>Executive Office of the President</u>			
Passed Through the Office of National Drug Control Policy High Intensity Drug Trafficking Areas Program	95.001	G16AP0001A	<u>16,374</u>
Total Executive Office of the President			16,374
<u>U. S. Department of Homeland Security</u>			
Passed Through the Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	15-210	<u>14,948</u>
Total U.S. Department of Homeland Security			<u>14,948</u>
Total Federal Financial Assistance			<u>\$ 1,906,409</u>

CITY OF CAMPBELLSVILLE, KENTUCKY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Campbellsville, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF CAMPBELLSVILLE, KENTUCKY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2016

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs?

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

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

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

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.760

U.S. Department of Agriculture  
 Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement of Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

CITY OF CAMPBELLSVILLE, KENTUCKY  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2016

**Findings and Questioned Costs – Financial Statements:**

*Finding:*

None

**Findings and Questioned Costs – Major Federal Award Program Audit:**

*Finding:*

None

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Campbellsville, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Campbellsville, Kentucky's basic financial statements, and have issued our report thereon dated February 6, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Campbellsville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

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

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Wise, Buckner, Sprowles & Associates, PLLC*

Wise, Buckner, Sprowles & Associates, PLLC

Campbellsville, Kentucky

February 6, 2017

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

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

**Report on Compliance for Each Major Federal Program**

We have audited City of Campbellsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of City of Campbellsville Kentucky's major federal programs for the year ended June 30, 2016. City of Campbellsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, City of Campbellsville, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

## **Report on Internal Control Over Compliance**

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

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

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

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

*Wise, Buckner, Sprowles & Associates, PLLC*

Wise, Buckner, Sprowles & Associates, PLLC

Campbellsville, Kentucky  
February 6, 2017