

CITY OF CAMPTON, KENTUCKY

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2017

CITY OF CAMPTON
FINANCIAL STATEMENTS AND REPORT OF AUDIT
For the Year Ended June 30, 2017

TABLE OF CONTENTS

<u>ITEM</u>	<u>Pages</u>
Independent Auditor's Report	1 - 2
General Purpose Financial Statements	3
Government-wide Financial Statements	
Statement of Net Position	4 - 5
Statement of Activities	6 - 7
Fund Financial Statements	
Balance Sheet – Governmental Funds	8
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	9
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Net Position – Proprietary Funds	12 - 13
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	14 - 15
Statement of Cash Flows – Proprietary Funds	16 - 17
Notes to the Basic Financial Statements	18 - 42

CITY OF CAMPTON

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2017

TABLE OF CONTENTS

<u>ITEM</u>	<u>Pages</u>
<u>Required Supplementary Information</u>	43
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	44
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Funds	45
Schedules of Employer’s Share of Net Pension Liability and Schedules of Employer Contributions	46
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 <i>Government Auditing Standards</i>	47 - 48
Summary Schedule of Prior Audit Findings	49 - 58
Schedule of Findings and Responses	59 - 60
<u>Appendix A</u>	
Certification of Local Government Economic Assistance Program Compliance	61

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners
City of Campton
Campton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Campton, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Campton, Kentucky'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 Campton, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters***Required Supplementary Information***

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018, on our consideration of the City of Campton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Campton, Kentucky's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

February 6, 2018

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF CAMPTONSTATEMENT OF NET POSITIONJune 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
- Current assets -			
Cash and Cash Equivalents - Unrestricted	\$ 344,951	\$ 325,579	\$ 670,530
Receivables:			
Customers	-	164,778	164,778
Due From Other Funds	41,203	-	41,203
Restricted Assets:			
Cash and Cash Equivalents	280,430	826,680	1,107,110
Prepaid Insurance	<u>-</u>	<u>28,048</u>	<u>28,048</u>
<u>Total Current Assets</u>	<u>666,584</u>	<u>1,345,085</u>	<u>2,011,669</u>
- Noncurrent assets -			
Land, Easements and Right of Ways	251,186	347,101	598,287
Construction in Progress	-	236,726	236,726
Property, Plant and Fixtures	422,234	28,232,362	28,654,596
Less: Accumulated Depreciation	<u>(254,110)</u>	<u>(7,763,101)</u>	<u>(8,017,211)</u>
<u>Total Noncurrent Assets</u>	<u>419,310</u>	<u>21,053,088</u>	<u>21,472,398</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows - Pension Resources	<u>-</u>	<u>131,553</u>	<u>131,553</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 1,085,894</u>	<u>\$ 22,529,726</u>	<u>\$ 23,615,620</u>

See notes to financial statements.

CITY OF CAMPTON

STATEMENT OF NET POSITION (CONTINUED)

June 30, 2017

	Governmental Activities	Business-type Activities	Total
<u>LIABILITIES</u>			
- Current Liabilities -			
Accounts Payable	\$ -	\$ 60,373	\$ 60,373
Accrued Liabilities	-	110,565	110,565
Customer Deposits	-	148,899	148,899
Due to Other Funds	-	41,203	41,203
Loans Payable - Current Portion	8,401	61,857	70,258
Revenue Bonds Payable - Current Portion	-	55,247	55,247
<u>Total current liabilities</u>	<u>8,401</u>	<u>478,144</u>	<u>486,545</u>
- Noncurrent Liabilities -			
Net Pension Liability	-	760,020	760,020
Compensated Absences	-	38,819	38,819
Loans Payable	24,267	1,090,212	1,114,479
Revenue Bonds Payable	-	2,133,767	2,133,767
<u>Total Noncurrent Liabilities</u>	<u>24,267</u>	<u>4,022,818</u>	<u>4,047,085</u>
<u>Total Liabilities</u>	<u>32,668</u>	<u>4,500,962</u>	<u>4,533,630</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows - Pension Related	-	-	-
<u>NET POSITION</u>			
Net Investment in Capital Assets	386,642	17,712,005	18,098,647
Unrestricted (Deficit)	383,767	(30,535)	353,232
(Deficit) Net Unfunded Pension Liabilities	-	(628,467)	(628,467)
Restricted	282,817	975,761	1,258,578
<u>Total net position</u>	<u>1,053,226</u>	<u>18,028,764</u>	<u>19,081,990</u>
Total liabilities, deferred inflows of resources and <u>net position</u>	<u>\$ 1,085,894</u>	<u>\$ 22,529,726</u>	<u>\$ 23,615,620</u>

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2017

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
General government	\$ 23,728	\$ -	\$ -	\$ -
Roads	16,021	-	(23,819)	-
Interest on Long Term Debt	1,502	-	-	-
Recreation and Culture	8,069	-	-	-
Fire Protection	22,021	-	-	-
<u>Total governmental activities</u>	<u>71,341</u>	<u>-</u>	<u>(23,819)</u>	<u>-</u>
- Business-type Activities -				
Water and Sewer Utilities	2,298,041	(1,412,715)	-	-
<u>Total business-type activities</u>	<u>2,298,041</u>	<u>(1,412,715)</u>	<u>-</u>	<u>-</u>
<u>Total primary government</u>	<u>\$ 2,369,382</u>	<u>\$ (1,412,715)</u>	<u>\$ (23,819)</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF CAMPTON

STATEMENT OF ACTIVITIES (CONTINUED)

For the Year Ended June 30, 2017

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business- Type Activities	Total
	\$ (23,728)	\$ -	\$ (23,728)
	7,798	-	7,798
	(1,502)	-	(1,502)
0	(8,069)	-	(8,069)
	<u>(22,021)</u>	<u>-</u>	<u>(22,021)</u>
	<u>(47,522)</u>	<u>-</u>	<u>(47,522)</u>
	-	(885,326)	(885,326)
	-	(885,326)	(885,326)
	<u>(47,522)</u>	<u>(885,326)</u>	<u>(932,848)</u>
General revenues:			
Property taxes	78,443	-	78,443
Licenses and permits	3,010	-	3,010
Interest income	4,565	5,867	10,432
Miscellaneous	<u>1,974</u>	<u>36,293</u>	<u>38,267</u>
<u>Total general revenues</u>	<u>87,992</u>	<u>42,160</u>	<u>130,152</u>
Change in net position	40,470	(843,166)	(802,696)
Net position - beginning of year	1,012,756	18,669,462	19,682,218
Contributed capital	<u>-</u>	<u>202,468</u>	<u>202,468</u>
Net position - end of year	<u>\$ 1,053,226</u>	<u>\$ 18,028,764</u>	<u>\$ 19,081,990</u>

See notes to financial statements.

CITY OF CAMPTON

BALANCE SHEET – GOVERNMENTAL FUNDSJune 30, 2017

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 344,951	\$ -	\$ 344,951
Due from Other Funds	38,816	2,387	41,203
<u>Restricted Assets:</u>			
Cash and Cash Equivalents	<u>-</u>	<u>280,430</u>	<u>280,430</u>
<u>Total assets</u>	<u>383,767</u>	<u>282,817</u>	<u>666,584</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities:</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Total liabilities</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balance:</u>			
Unassigned	383,767	-	383,767
Restricted	<u>-</u>	<u>282,817</u>	<u>282,817</u>
<u>Total fund balance</u>	<u>383,767</u>	<u>282,817</u>	<u>666,584</u>
<u>Total liabilities and fund balance</u>	<u>\$ 383,767</u>	<u>\$ 282,817</u>	<u>\$ 666,584</u>

See notes to financial statements.

CITY OF CAMPTONRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONJune 30, 2017

Total fund balance per fund financial statements	\$ 666,584
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

Governmental capital assets	\$ 673,420	
Less accumulated depreciation	<u>\$ (254,110)</u>	
		419,310

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund

Governmental bonds and notes payable	<u>(32,668)</u>
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Net position for governmental activities	<u><u>\$ 1,053,226</u></u>
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See notes to financial statements.

CITY OF CAMPTONCOMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDSFor the Year Ended June 30, 2017

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Total</u>
<u>REVENUES:</u>			
Taxes:			
City Tax Fees	\$ 26,637	\$ -	\$ 26,637
Insurance Premium	51,617	-	51,617
Other	189	-	189
Licenses	3,010	-	3,010
Miscellaneous	1,974	-	1,974
Coal/Mineral Taxes	-	15,235	15,235
Municipal Road Aid	-	8,584	8,584
	<u>83,427</u>	<u>23,819</u>	<u>107,246</u>
<u>Total revenues</u>			
<u>EXPENDITURES:</u>			
Current:			
General government	15,618	-	15,618
Fire	22,021	-	22,021
Highways and streets	-	1,046	1,046
Debt service	9,410	-	9,410
	<u>47,049</u>	<u>1,046</u>	<u>48,095</u>
<u>Total expenditures</u>			
Excess of revenues over (under) expenditures	<u>36,378</u>	<u>22,773</u>	<u>59,151</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in (out)	9,189	(9,189)	-
Interest income	2,514	2,051	4,565
	<u>11,703</u>	<u>(7,138)</u>	<u>4,565</u>
<u>Total other financing sources (uses)</u>			
Excess of revenues and other sources over (under) expenditures and other uses	48,081	15,635	63,716
<u>FUND BALANCE - JULY 1</u>	<u>335,686</u>	<u>267,182</u>	<u>602,868</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ 383,767</u>	<u>\$ 282,817</u>	<u>\$ 666,584</u>

See notes to financial statements.

CITY OF CAMPTONRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2017

Net change in total fund balances per fund financial statements	\$ 63,716
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Amounts reported for governmental activities in the statement of activities differences:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as

Capital outlay	\$ -	
Depreciation	(31,154)	(31,154)

Repayment of long term debt is considered an expenditure in the governmental funds, but their repayment reduces long-term

liabilities in the statement of net position	7,997
Interest is recognized when paid in the fund financial statements	<u>(89)</u>

Change in net position of governmental activities	<u>\$ 40,470</u>
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CITY OF CAMPTONSTATEMENT OF NET POSITION – PROPRIETARY FUNDSJune 30, 2017

<u>ASSETS</u>	Water and <u>Sewer</u>
<u>CURRENT ASSETS:</u>	
Cash and Cash Equivalents	\$ 325,579
Receivables:	
Customers	125,219
Unbilled	39,559
Restricted Assets:	
Cash and Cash Equivalents	826,680
Prepaid Insurance	<u>28,048</u>
<u>Total current assets</u>	<u>1,345,085</u>
<u>NONCURRENT ASSETS:</u>	
Capital Assets - Net of Accumulated Depreciation	
Construction in Progress	236,726
Land	347,101
Vehicles and Equipment	119,545
Infrastructure	<u>20,349,716</u>
<u>Total Noncurrent Assets</u>	<u>21,053,088</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows - Pension Resources	<u>131,553</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 22,529,726</u>

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2017

	<u>Water and Sewer</u>
LIABILITIES	
<u>CURRENT LIABILITIES:</u>	
Accounts Payable - Trade	\$ 60,373
Accrued Wages	8,261
Accrued Payroll Liabilities	2,854
Accrued Interest	86,070
Retirement Payable	9,834
Sales Tax Payable	1,005
Utility Tax Payable	2,541
Customer Deposits	148,899
Due to Other Funds	41,203
Loans Payable	61,857
Bonds Payable	<u>55,247</u>
 <u>Total current liabilities</u>	 <u>478,144</u>
 <u>NONCURRENT LIABILITIES:</u>	
Net Pension Liability	760,020
Compensated Absences	38,819
Loans Payable	1,090,212
Bonds Payable	<u>2,133,767</u>
 <u>Total noncurrent liabilities</u>	 <u>4,022,818</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows - Pension Related	<u>-</u>
 <u>NET POSITION</u>	
Net investment in capital assets, net of related debt	17,712,005
Restricted for:	
Depreciation Reserve	102,577
Construction	577,446
Other	295,738
Unrestricted (Deficit)	<u>(659,002)</u>
 <u>Total net position</u>	 <u>18,028,764</u>
 Total liabilities, deferred inflows of resources <u>and net position</u>	 <u><u>\$ 22,529,726</u></u>

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2017

	<u>Water and Sewer</u>
<u>REVENUES:</u>	
Sewer Revenue	\$ 230,477
Water Revenue	1,182,238
Miscellaneous Revenue	<u>36,293</u>
<u>Total</u>	<u>1,449,008</u>
<u>OPERATING EXPENSES BEFORE DEPRECIATION:</u>	
Bank Charges	467
Commissioners Pay	33,800
Dues and Subscriptions	4,064
Equipment Repair	11,515
Fuel	17,204
Insurance	152,833
Legal Services	4,838
Accounting and Audit	6,535
Miscellaneous	2,055
Office Supplies	10,322
Parts and Chemicals	151,722
Printing and Advertising	1,938
Purchase of Water	3,688
Repairs and Maintenance	59,137
Retirement Benefits	226,773
Salaries and Wages	436,001
Payroll Taxes	42,163
Sales Tax Expense	15,216
Samples	17,476
Sewer Plant Expense	37,710
Surety Bonds	102
Training	3,365
Unemployment Insurance	2,946
Utilities	193,416
Utility Tax	26,735
Vehicle Maintenance	5,305
Water Plant Expense	<u>2,876</u>
<u>Total</u>	<u>1,470,202</u>
OPERATING INCOME BEFORE DEPRECIATION	(21,194)

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS (Continued)For the Year Ended June 30, 2017

<u>LESS - DEPRECIATION</u>	<u>712,386</u>
<u>Net operating income (loss)</u>	<u>(733,580)</u>
<u>NON-OPERATING INCOME (EXPENSES):</u>	
Interest income	5,867
Interest expense	<u>(115,453)</u>
<u>Total non-operating income (expenses)</u>	<u>(109,586)</u>
<u>Net income (loss)</u>	<u>(843,166)</u>
<u>NET POSITION - JULY 1</u>	18,669,462
<u>Contributed capital</u>	<u>202,468</u>
<u>NET POSITION - JUNE 30</u>	<u>\$ 18,028,764</u>

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2017CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers and users	\$ 1,475,720
Payments to employees	(565,203)
Payments to suppliers	<u>(698,002)</u>
 <u>Net cash provided/(used) by operating activities</u>	 <u>212,515</u>

CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets - net	(209,324)
Principal paid on notes and bonds	(126,242)
Interest paid on bonds and note	(68,930)
Contributed capital	<u>202,468</u>
 <u>Net cash provided/(used) for capital and</u> <u>related financing activities</u>	 <u>(202,028)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	<u>5,867</u>
 <u>Net cash provided/(used) by investing activities</u>	 <u>5,867</u>

NET INCREASE (DECREASE) IN CASH
16,354
CASH AND RESTRICTED CASH, JULY 1
1,135,905
CASH AND RESTRICTED CASH, JUNE 30
1,152,259

See notes to financial statements.

CITY OF CAMPTONSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (Continued)For the Year Ended June 30, 2017RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating profit/(loss)	(733,580)
Adjustments to reconcile operating net cash provided by operating activities	
Depreciation	712,386
Changes in assets and liabilities	
(Increase) decrease in deferred outflows - pension resources	31,013
Increase (decrease) in net pension liability	116,479
(Increase) decrease in accounts receivable	(3,629)
(Increase) decrease in grants receivable	6,600
(Increase) decrease in prepaid insurance	(1,725)
Increase (decrease) in accounts payable	35,188
Increase (decrease) in accrued wages	(1,124)
Increase (decrease) in retirement payable	2,990
Increase (decrease) in payroll liabilities	1,038
Increase (decrease) in compensated absences	23,138
Increase (decrease) in sales tax payable	14
Increase (decrease) in utility tax payable	284
Increase (decrease) in customer deposits	<u>23,443</u>
 <u>Net cash provided by operations</u>	 <u>\$ 212,515</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTSJune 30, 2017Note A – General Statement and Summary of Significant Accounting PoliciesGeneral Statement

The City Commissioners, a five member group composed of the Mayor and four Commissioners, each having voting responsibilities, is the level of government which has oversight responsibilities over all activities related to the operations of the City of Campton, Kentucky, its infrastructure, roads, sewer and water system, etc. the City receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Commissioners members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

1. The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of City of Campton, Kentucky. The financial statements presented herein do not include funds of groups and organizations, which although associated with the City, have not originated with the City itself such as the Fire Department (except for monies specifically designated by ordinance to be maintained by the City of Campton, Kentucky).

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of managements, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of the criterial stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)2. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. The primary government is presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds when applicable.

The City reports the following major funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Activities include general administration and street maintenance.

The *Proprietary Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where management has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. It is specifically used to account for provision of water and sewer services. Activities of the fund include administration and maintenance of the system.

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)2. Government-Wide and Fund Financial Statements (continued)

The *Special Revenue Fund* accounts for local government economic assistance and road funds restricted to assisting in general operations of the City and designated for improving the City's highway infrastructure.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)4. Assets, Liabilities, and Net Position or Equity

a. Cash and Investments

Cash and investments are separately held and reflected in their respective funds as “cash and cash equivalents” and “investments” some of which are restricted assets.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of one year or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

b. Inventories and Prepaid Items

Supplies and materials are charged to expenditures when purchased.

Prepaid accounts record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaid accounts are similarly reported in government-wide and fund financial statements.

c. Capital Assets, Depreciation, and Amortization

The City’s property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component unit’s financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$10,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)4. Assets, Liabilities, and Net Position or Equity (continued)

c. Capital Assets, Depreciation, and Amortization (continued)

Depreciation has been calculated on each class of depreciable property using the straight-line method, with one-half year's depreciation in the year of acquisition. Estimated useful lives are as follows:

Land improvements	10 – 40 years
Buildings and improvements	10 – 40 years
Infrastructure	10 – 20 years
Vehicles and equipment	3 – 10 years

d. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

e. Fund Equity

Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011 clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Classifications include *non-spendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose.

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)4. Assets, Liabilities, and Net Position or Equity (continued)

e. Fund Equity (continued)

The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2017:

	General	Special Revenue	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Unassigned	\$ 383,767	\$ -	\$ 383,767
Restricted	<u>-</u>	<u>282,817</u>	<u>282,817</u>
Total fund balances	<u>\$ 383,767</u>	<u>\$ 282,817</u>	<u>\$ 666,584</u>

f. Net Position

GASB 63, implemented for the year ended June 30, 2013, changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the City or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

5. Sources of Revenue and Other General Information

a. Revenues

The major sources of revenue other than general fund tax and licenses and proprietary fee for services are federal and state grants, state financial assistance, local contributed cash, contributed services, and other revenues as discussed below:

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)5. Sources of Revenue and Other General Information (continued)1. Federal and State Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

2. State Financial Assistance

State financial assistance revenues are recognized upon notification of the amount of the award as the resources are collectible within the current period.

3. Local Contributed Cash

Contributions to grant programs from local governments and other participants are recognized as revenue when grant expenditures are incurred in the case of cost reimbursement grants.

4. In-Kind – Contributed Services

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal funding on various grants. Contributed services are therefore reflected as revenue and expenditures in accordance with legal requirements of the individual grants. Contributed services are recorded as expenditures with an equivalent amount recorded as revenue. The amounts of such services are recorded in the accompanying financial statements at their estimated fair values at date of receipt.

5. Other Revenues

Other revenues are composed primarily of interest and miscellaneous charges for services. Interest income is recorded as earned since it is measurable and available. Miscellaneous charges for services are recorded as revenues when received in cash because they are generally not measurable until actually received.

b. Leases

Leases that transfer substantially all of the risks and benefits of ownership are capital leases. Other leases are operating leases. Capital leases are included in property and equipment and are amortized using the straight-line method over their respective terms. Operating leases are expensed over the terms of the leases.

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)6. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds as well as for all enterprise funds. These budgets are adopted on a basis consistent with generally accepted accounting principles.
- b. Budgetary data for capital project funds has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective project and not on an annual basis.
- c. The City Commissioners approves, by ordinance, total budget appropriations only and any revisions that alter the total appropriations of any fund must be approved by the City Commissioners. Therefore, the level of budgetary responsibility is by total appropriations. However, for report purposes this level has been expanded to a functional basis (general government, public safety, etc.).
- d. Unused appropriations for annually budgeted funds lapse at the end of year.
- e. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

7. Leave Policies

Upon retirement from the City, an employee will receive an amount equal to their accumulated unused vacation at their present rate of pay. Employees accumulate 3.33 hours of vacation per month for the first year of employment, 6.67 hours per month for the second through tenth years of employment, and 10 hours per month for the years of service greater than 10 years. As of January 8, 2002, the City adopted a policy limiting the amount of compensated absences that can be carried over. Vacation time is limited to 120 hours of carryover. Accrued compensated absences at June 30, 2017 was \$38,819. Sick leave is accumulated at the rate of 8 hours per month for all permanent employees. Sick leave carryover is capped at 288 hours per fiscal year.

8. Encumbrances

Encumbrances represent commitments related to unperformed contracts for good or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental fund types.

Encumbrances are reported as a component of assigned, restricted or committed fund balance since they do not constitute expenditures or liabilities.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note A – General Statement and Summary of Significant Accounting Policies (Continued)9. Property Tax Calendar

Property taxes for fiscal year 2017 were levied in September 2016, on the assessed valuation of property in Wolfe County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes, are as follows:

<u>Description</u>	<u>Per KRS 134.020</u>
1. Due date for payment of taxes, 1% discount	30 days from the date mailed
2. Face value amount payment date	31-60 days from the date mailed
3. Delinquent date, 20% penalty, 6% interest per annum	Beyond 61 days from the date mailed

Vehicle taxes are collected by the County Clerk of Wolfe County and are due and collected in the birth month of the vehicle licensee.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Recently Issued Accounting Pronouncements

GASB Statement 65, implemented during the 2014 fiscal year, establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statement presentations.

GASB Statement No. 66, *Technical Corrections—2012; an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The City implemented the new requirements for fiscal year 2013-2014 financial statements.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note A – General Statement and Summary of Significant Accounting Policies (Continued)

11. Recently Issued Accounting Pronouncements (continued)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.

The District is assessing its accounting and financial reporting impact for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after June 15, 2017.

Note B – Cash and Investments

The carrying amount of the City's deposits with financial institutions was \$1,777,640 and the bank balance was \$1,779,484. Investments at June 30, 2017 consisted of certificates of deposit in local financial institutions. For purposes of the cash flow statement, cash includes cash checking and savings accounts.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the City may not recover collateral securities. The City requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation coverage (FDIC). At June 30, 2017, \$250,000 was covered by FDIC, \$1,452,459 was secured by securities held in the financial institution's name, and the balance, \$35,181 was uncollateralized. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the City's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The City does not hold any foreign investments.

Note C – Inventory Items

Supplies and materials are charged to expenditures when purchased.

Note D – Payable from Restricted Assets

Certain assets of the City of Campton have been restricted for debt service, customer deposit, equipment, infrastructure and construction. The assets consist of cash and short-term investments restricted as follows:

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note D – Payable from Restricted Assets (Continued)

AML Project Phase 1/ Phase 2	\$ 100
Barkers Branch Extension Project	27,783
Campton Sewer Rehab	3,890
CDBG Checking	7
City Of Campton - Whitaker Bank	47,531
Rental Deposit Checking	295,738
SRTS Project	8,670
USDA RD Bond	84,206
Waste Water Plant	27,125
Water & Sewer Depreciation Fund	102,577
Water Treatment Plant Fund	100
Water Treatment Fund #2	7,500
West Campton & Quillen Chapel	170,458
Wolfe Co. Com Water Ext. Project	<u>50,995</u>
<u>Total</u>	<u>\$ 826,680</u>

Note E – Fund Financial Statements Excess
Expenditures over Revenue/Deficit Balances

The following fund had excess expenditures over revenues:

Water and Sewer Fund	\$ 733,580
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The following fund had a deficit balance at June 30, 2017:

NONE

Note F – Allowance for Uncollectible Accounts and Billing Methods

Management has elected to record bad debt expense using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debt expense. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

The City generally reads meters between the 15th and the 20th each month. The bills for the current reading go out on the first day of the following month. The unbilled receivables represents approximately 10 days at the end of June not billed until August 1.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note G – Proprietary Funds Property, Plant and Equipment

The following is a summary of changes in the property, plant and equipment of the enterprise funds at June 30, 2017:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Capital assets not being depreciated:</u>				
Land, easement and right of way	\$ 347,101	\$ -	\$ -	\$ 347,101
Construction in progress	<u>23,030</u>	<u>232,324</u>	<u>(18,628)</u>	<u>236,726</u>
Total capital assets not being depreciated	370,131	232,324	(18,628)	583,827
<u>Capital assets being depreciated:</u>				
Utility Plant and Lines	27,925,682	-	-	27,925,682
Vehicles and Equipment	<u>306,680</u>	<u>-</u>	<u>-</u>	<u>306,680</u>
Total capital assets being depreciated	28,232,362	-	-	28,232,362
<u>Less accumulated depreciation for:</u>				
Utility Plant and Lines	(6,881,478)	(690,116)	(4,372)	(7,575,966)
Vehicles and Equipment	<u>(164,865)</u>	<u>(22,270)</u>	<u>-</u>	<u>(187,135)</u>
Total accumulated depreciation	<u>(7,046,343)</u>	<u>(712,386)</u>	<u>(4,372)</u>	<u>(7,763,101)</u>
<u>Total capital assets being depreciated, net:</u>	<u>21,186,019</u>	<u>(712,386)</u>	<u>(4,372)</u>	<u>20,469,261</u>
<u>Total proprietary fund fixed assets</u>	<u>\$21,556,150</u>	<u>\$ (480,062)</u>	<u>\$ (23,000)</u>	<u>\$ 21,053,088</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Utility	<u>\$ 712,386</u>
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CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note H – Governmental Fixed Assets

The following is a summary of governmental fixed assets and related depreciation:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 144,062	\$ -	\$ -	\$ 144,062
Total capital assets not being depreciated	\$ 144,062	\$ -	\$ -	\$ 144,062
	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
<u>Capital assets being depreciated:</u>				
Land Improvements	\$ 107,124	\$ -	\$ -	\$ 107,124
Buildings and Improvements	86,709	-	-	86,709
Equipment	99,240	-	-	99,240
Infrastructure	236,285	-	-	236,285
Total capital assets being depreciated	529,358	-	-	529,358
<u>Less accumulated depreciation for:</u>				
Land Improvements	(22,917)	(5,942)	-	(28,859)
Buildings and Improvements	(24,779)	(2,168)	-	(26,947)
Equipment	(89,735)	(8,069)	(89)	(97,893)
Infrastructure	(85,436)	(14,975)	-	(100,411)
Total accumulated depreciation	(222,867)	(31,154)	(89)	(254,110)
<u>Total capital assets being depreciated, net:</u>	<u>306,491</u>	<u>(31,154)</u>	<u>(89)</u>	<u>275,248</u>
<u>Total governmental fund fixed assets</u>	<u>\$ 450,553</u>	<u>\$ (31,154)</u>	<u>\$ (89)</u>	<u>\$ 419,310</u>

Depreciation was charged to governmentatl functions as follows:

General Government	\$ 8,110
Recreation and Culture	8,069
Roads and Infrastructure	<u>14,975</u>
Total	<u>\$ 31,154</u>

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note I – Long Term Debt/Demand Notes

The following is a summary of Notes Payable and Revenue Bonds transactions of the City of Campton for the year ended June 30, 2017:

Business-Type Activities:

	Balance			Balance	Due Within
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
Revenue Bonds	\$ 2,254,014	\$ -	\$ (65,000)	\$ 2,189,014	\$ 55,247
Note Payable	<u>1,213,311</u>	<u>-</u>	<u>(61,242)</u>	<u>1,152,069</u>	<u>61,857</u>
	<u>\$ 3,467,325</u>	<u>\$ -</u>	<u>\$ (126,242)</u>	<u>\$ 3,341,083</u>	<u>\$ 117,104</u>

Governmental Activities:

	Balance			Balance	Due Within
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
Note Payable	<u>\$ 40,665</u>	<u>-</u>	<u>(7,997)</u>	<u>\$ 32,668</u>	<u>\$ 8,401</u>
	<u>\$ 40,665</u>	<u>\$ -</u>	<u>\$ (7,997)</u>	<u>\$ 32,668</u>	<u>\$ 8,401</u>

Principal and interest requirements to retire the City's long-term obligations are as follows:

Debt Service in the Aggregate - Business-Type

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 117,104	\$ 86,070	\$ 203,174
2019	119,478	83,057	202,535
2020	122,405	80,321	202,726
2021	125,339	77,029	202,368
2022	128,779	74,135	202,914
2023 - 2027	693,923	323,487	1,017,410
2028 - 2032	751,934	235,985	987,919
2033 - 2037	609,854	145,769	755,623
2038 - 2042	384,000	70,462	454,462
2043 - 2047	227,000	19,262	246,262
2048 - 2049	<u>61,267</u>	<u>1,507</u>	<u>62,774</u>
	<u>\$ 3,341,083</u>	<u>\$ 1,197,084</u>	<u>\$ 4,538,167</u>

CITY OF CAMPTONNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note I – Long Term Debt/Demand Notes (continued)

Year	Governmental Activities		
	Org note, \$90,000, 4.0% Interest		
	Principal	Interest	Total
2018	\$ 8,401	\$ 1,427	\$ 9,828
2019	8,743	756	9,499
2020	9,100	399	9,499
2021	<u>6,424</u>	<u>63</u>	<u>6,487</u>
	<u>\$ 32,668</u>	<u>\$ 2,645</u>	<u>\$ 35,313</u>

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay the above revenue bonds. Proceeds from the bonds were used for rehabilitation or expansion of the City's water and sewer systems and various infrastructure projects.

*Business Type Activities*BONDS

	6/30/2017 <u>Balance</u>
Bonds payable at June 30, 2017 consists of the following:	
\$274,000 Water and Sewer Revenue Bonds of 1980 maturing through January 2020 in accordance with original amortization schedule, with interest at 5.0%, collateralized by the revenues of the Combined Water and Sewer System	947
\$160,000 Water and Sewer Revenue Bonds of 1989 maturing through January 2029 in accordance with original amortization schedule, with interest at 5.0%, collateralized by the revenues of the Combined Water and Sewer System	84,200
\$271,000 Water and Sewer Revenue Bonds of 1995, Series A, maturing through January 2035 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	185,600
\$593,000 Water and Sewer Revenue Bonds of 1999, maturing through January 2039 in accordance with original amortization schedule, with interest at 3.25%, collateralized by the revenues of the Combined Water and Sewer System	452,000

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note I – Long Term Debt/Demand Notes (continued)*Business Type Activities (Continued)*

	6/30/2017 Balance
BONDS	
\$400,000 Water and Sewer Revenue Bonds of 2003, maturing through January 2043 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	336,500
\$392,000 Water and Sewer Revenue Bonds of 2004, maturing through January 2044 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	336,000
\$892,000 Water and Sewer Revenue Bonds of 2011, maturing through January 2049 in accordance with original amortization schedule, with interest at 2.25%, collateralized by the revenues of the Combined Water and Sewer System	793,767
Totals	<u><u>2,189,014</u></u>

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2017 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of June 30, 2017 according to various bond documents, including interest payments are as follows:

1980 RD Bond Issue - 91-05

	Org series \$274,000		
Year	Principal	Interest	Total
2018	\$ 947	\$ 375	\$ 1,322

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note I – Long Term Debt/Demand Notes (continued)Sinking Fund Requirements (Continued)

1989 RD Bond Issue - 91-06

Org series \$160,000

Year	Principal	Interest	Total
2018	\$ 5,300	\$ 4,078	\$ 9,378
2019	5,500	3,808	9,308
2020	5,800	3,525	9,325
2021	6,100	3,228	9,328
2022	6,400	2,915	9,315
2023 - 2027	37,200	9,314	46,514
2028 - 2029	<u>17,900</u>	<u>914</u>	<u>18,814</u>
	<u>\$ 84,200</u>	<u>\$ 27,782</u>	<u>\$ 111,982</u>

1995 RD Bond Series A - 91-09

Org series \$271,000

Year	Principal	Interest	Total
2018	\$ 6,500	\$ 8,336	\$ 14,836
2019	7,000	8,033	15,033
2020	7,500	7,707	15,207
2021	7,500	7,369	14,869
2022	8,000	7,020	15,020
2023 - 2027	47,000	29,117	76,117
2028 - 2032	59,500	17,203	76,703
2033 - 2035	<u>42,600</u>	<u>3,208</u>	<u>45,808</u>
	<u>\$ 185,600</u>	<u>\$ 87,993</u>	<u>\$ 273,593</u>

1999 RD Bond - 91-13

Org series \$593,000

Year	Principal	Interest	Total
2018	\$ 12,000	\$ 14,495	\$ 26,495
2019	13,000	14,089	27,089
2020	14,000	13,650	27,650
2021	14,000	13,195	27,195
2022	15,000	12,724	27,724
2023 - 2027	85,000	55,689	140,689
2028 - 2032	106,000	40,237	146,237
2033 - 2037	132,000	21,059	153,059
2038 - 2039	<u>61,000</u>	<u>1,999</u>	<u>62,999</u>
	<u>\$ 452,000</u>	<u>\$ 187,137</u>	<u>\$ 639,137</u>

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note I – Long Term Debt/Demand Notes (continued)Sinking Fund Requirements (Continued)

2003 RD Bond - 92-18			
Org series \$400,000			
Year	Principal	Interest	Total
2018	\$ 7,000	\$ 14,985	\$ 21,985
2019	7,500	14,659	22,159
2020	7,500	14,321	21,821
2021	8,000	13,972	21,972
2022	8,500	13,601	22,101
2023 - 2027	48,000	61,830	109,830
2028 - 2032	60,000	49,728	109,728
2033 - 2037	74,000	34,717	108,717
2038 - 2042	92,500	16,057	108,557
2043	23,500	529	24,029
	<u>\$ 336,500</u>	<u>\$ 234,399</u>	<u>\$ 570,899</u>

2004 RD Bond - 91-23			
Org series \$392,000			
Year	Principal	Interest	Total
2018	\$ 7,000	\$ 14,131	\$ 21,131
2019	7,000	13,834	20,834
2020	7,000	13,537	20,537
2021	8,000	13,218	21,218
2022	8,000	12,878	20,878
2023 - 2027	45,000	58,928	103,928
2028 - 2032	56,000	48,240	104,240
2033 - 2037	70,000	34,894	104,894
2038 - 2042	87,000	18,255	105,255
2043 - 2044	41,000	1,763	42,763
	<u>\$ 336,000</u>	<u>\$ 229,678</u>	<u>\$ 565,678</u>

2004 RD Bond - 91-25			
Org series \$892,000			
Year	Principal	Interest	Total
2018	\$ 16,500	\$ 17,826	\$ 34,326
2019	17,000	17,449	34,449
2020	17,500	17,061	34,561
2021	18,000	16,661	34,661
2022	18,500	16,250	34,750
2023 - 2027	100,000	74,701	174,701
2028 - 2032	112,500	62,747	175,247
2033 - 2037	126,500	49,339	175,839
2038 - 2042	143,500	34,151	177,651
2043 - 2047	162,500	16,970	179,470
2048 - 2049	61,267	1,507	62,774
	<u>\$ 793,767</u>	<u>\$ 324,662</u>	<u>\$ 1,118,429</u>

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note I – Long Term Debt/Demand Notes (continued)Sinking Fund Requirements (Continued)

KIA Loan F209-08			
Org series \$683,200, amortizable			
Year	Principal	Interest	Total
2018	\$ 15,058	\$ 2,875	\$ 17,933
2019	15,209	2,686	17,895
2020	15,361	2,496	17,857
2021	15,515	1,842	17,357
2022	15,671	1,687	17,358
2023 - 2027	80,741	6,047	86,788
2028 - 2032	<u>76,190</u>	<u>1,917</u>	<u>78,107</u>
	<u>\$ 233,745</u>	<u>\$ 19,550</u>	<u>\$ 253,295</u>

KIA Loan A11-04			
Org series \$1,400,000, amortizable			
Year	Principal	Interest	Total
2018	\$ 46,799	\$ 8,969	\$ 55,768
2019	47,269	8,499	55,768
2020	47,744	8,024	55,768
2021	48,224	7,544	55,768
2022	48,708	7,060	55,768
2023 - 2027	250,982	27,861	278,843
2028 - 2032	263,844	14,999	278,843
2033 - 2035	<u>164,754</u>	<u>2,552</u>	<u>167,306</u>
	<u>\$ 918,324</u>	<u>\$ 85,508</u>	<u>\$ 1,003,832</u>

Governmental Activities			
Org note, \$90,000, 4.0% Interest			
Year	Principal	Interest	Total
2018	\$ 8,401	\$ 1,427	\$ 9,828
2019	8,743	756	9,499
2020	9,100	399	9,499
2021	<u>6,424</u>	<u>63</u>	<u>6,487</u>
	<u>\$ 32,668</u>	<u>\$ 2,645</u>	<u>\$ 35,313</u>

Note J – Contingent Liabilities

The City's management has stated, as of audit date, litigation pending against the City of Campton is estimated to be within the scope of its insurance coverage limitations.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note K – Interfund – Assets/Liabilities

Due from/to other funds balances at June 30, 2017 were as follows:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Due to/from Water Fund	\$ 38,816	\$ -
Special Revenue Fund		
Due to/from Water Fund	2,387	-
Water Fund		
Due to/from General Fund	-	38,816
Due to/from Special Revenue Fund	-	2,387
	<u>\$ 41,203</u>	<u>\$ 41,203</u>

Note L – Interfund – Transfers

Interfund transfers and receipts for the year ended June 30, 2017 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 9,189	\$ -
Special Revenue Fund	-	9,189
Totals	<u>\$ 9,189</u>	<u>\$ 9,189</u>

Note M – Pension Plans

Plan Description: Substantially all full-time employees of the City participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CITY OF CAMPTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

Note M – Pension Plans (Continued)

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800) 928-4646 or at <https://kyret.ky.gov>.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a City contribution of 18.68% of the employee's total compensation subject to contributions.

At June 30, 2017, the City reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used was based on an actuarial valuation as of June 30, 2016. At June 30, 2016 the City's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2015 was .015440% for nonhazardous employees.

City's proportionate share of the net	
CERS nonhazardous pension liability	<u>\$ 760,020</u>

For the year ended June 30, 2017, the City's government-wide financial statements reported CERS pension expense of \$226,773 for nonhazardous employees. For the year ended June 30, 2017 the City recognized deferred outflows of resources in the amount of \$131,553. No deferred inflows of resources were recognized for the year ended. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,318	\$ -
Changes of assumptions	40,261	-
Net difference between projected and actual earnings on pension plan investments	71,450	-
Changes in proportion and differences between City contributions and proportionate share of contributions	16,524	-
City contributions subsequent to the measurement date	-	-
Total	<u>\$ 131,553</u>	<u>\$ -</u>

CITY OF CAMPTON

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE M – Pension Plans (continued)

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed

Actuarial Methods and Assumptions (continued)

- Remaining Amortization Period – 2 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Nominal Return</u>
Combined Equity	50.0%	5.30%
Intermediate Duration Fixed Income	11.0%	1.00%
Custom KRS Fixed Income	11.0%	3.33%
Core Real Estate	5.0%	4.25%
Diversified Hedge Funds	10.0%	4.00%
Private Equity	2.0%	8.00%
Diversified Inflation Strategy	8.0%	3.15%
Cash Equivalent	<u>3.0%</u>	-0.25%
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment

CITY OF CAMPTON

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE M – Pension Plans (continued)

rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2016 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the City's proportionate share of net pension liability calculated using the discount rate of 7.50% as well as the City's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of net nonhazardous pension liability	\$ 954,686	\$ 760,020	\$ 599,367

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2017.

Note N – Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

CITY OF CAMPTONNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017Note O – Insurance and Related Activities

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated, which includes worker's compensation insurance.

Note P - Concentrations

The City's enterprise operations are concentrated in the Wolfe County area. The city's governmental operations are dependent on a sustaining tax base and assistance from local, state and federal authorities.

Note Q – Subsequent Events

As more clearly described in Finding 2016-004, the City completed a multi-funded sewer improvement project for which prior audits indicated costs and related reimbursement requests were duplicated. The City has not completely resolved the audit findings at report date. However, management for the City and representatives of regulatory authorities has met to determine any balance due from overpayments the City may have received regarding this project. The total questioned costs amounts to \$225,761 as reported in the previous audit. The City currently holds funds in reserve for the potential amount of any balance due grantor agencies.

After June 30, 2017, the City Commissioners agreed to approve payment of approximately \$43,000 to an employee for catch up contributions to the City's employee retirement plan for years when the employee worked for the City but did not offer any retirement plan. At report date and prior to disbursement of funds, the City Attorney has requested guidance from the Kentucky League of Cities regarding its impact on the City's regulatory compliance and reporting issues regarding this matter, particularly regarding reporting, taxation, budgeting, impact on other personnel and public notification.

SUPPLEMENTARY INFORMATION

CITY OF CAMPTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2017

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES:</u>			
Taxes	\$ 96,339	\$ 78,443	\$ (17,896)
Licenses and permits	1,150	3,010	1,860
Other	<u>2,200</u>	<u>1,974</u>	<u>(226)</u>
 <u>Total revenues</u>	 <u>99,689</u>	 <u>83,427</u>	 <u>(16,262)</u>
 <u>EXPENDITURES:</u>			
<u>Current:</u>			
General government	55,189	15,618	39,571
Fire protection	35,000	22,021	12,979
Debt service	<u>9,500</u>	<u>9,410</u>	<u>90</u>
 <u>Total expenditures</u>	 <u>99,689</u>	 <u>47,049</u>	 <u>52,640</u>
 Excess of revenue <u>over (under) expenditures</u>	 <u>-</u>	 <u>36,378</u>	 <u>36,378</u>
 <u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in (out)	-	9,189	9,189
Interest income	<u>-</u>	<u>2,514</u>	<u>2,514</u>
 <u>Total other financing sources (uses)</u>	 <u>-</u>	 <u>11,703</u>	 <u>11,703</u>
 Excess of revenues over (under) <u>expenditures and other sources (uses)</u>	 <u>-</u>	 <u>48,081</u>	 <u>48,081</u>
 <u>FUND BALANCE - JULY 1</u>	 <u>-</u>	 <u>335,686</u>	 <u>-</u>
 <u>FUND BALANCE - JUNE 30</u>	 <u>\$ -</u>	 <u>\$ 383,767</u>	 <u>\$ -</u>

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

CITY OF CAMPTONSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDSFor the Year Ended June 30, 2017

	<u>Special Revenue Fund</u>		
			Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>REVENUES:</u>			
Intergovernmental revenues	\$ 55,000	\$ 23,819	\$ (31,181)
<u>Total revenues</u>	<u>55,000</u>	<u>23,819</u>	<u>(31,181)</u>
<u>EXPENDITURES:</u>			
Highway and streets	<u>56,400</u>	<u>1,046</u>	<u>55,354</u>
<u>Total expenditures</u>	<u>56,400</u>	<u>1,046</u>	<u>55,354</u>
Excess of revenue over (under) expenditures	<u>(1,400)</u>	<u>22,773</u>	<u>24,173</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in (out)	-	(9,189)	(9,189)
Interest income	<u>1,400</u>	<u>2,051</u>	<u>651</u>
<u>Total other financing sources (uses)</u>	<u>1,400</u>	<u>(7,138)</u>	<u>(8,538)</u>
Excess of revenues over (under) <u>expenditures and other sources (uses)</u>	-	15,635	15,635
<u>FUND BALANCE - JULY 1</u>	<u>-</u>	<u>267,182</u>	<u>-</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ -</u>	<u>\$282,817</u>	<u>\$ -</u>

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

CITY OF CAMPTON

**SCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONS**

For the Year Ended June 30, 2017

	Employer's Proportionate Share of Net Pension Liability		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Nonhazardous</u>
Employer's proportion of the net pension liability	0.015440%	0.014712%	0.014968%
Employer's proportionate share of the net pension liability	760,020	477,000	643,541
Employer's covered employee payroll	377,914	337,105	342,863
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	201%	141%	188%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	59.97%

	Employer's Contributions		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Nonhazardous</u>
Contractually required contribution	45,376	63,757	62,118
Contributions in relation to the contractually required contribution	43,855	63,795	44,525
Contribution deficiency (excess)	1,521	(38)	17,593
City's covered employee payroll	377,914	337,105	342,863
Contributions as a percentage of covered employee payroll	12.01%	18.91%	18.12%

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

Chris Gooch

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

Honorable Mayor and City Commissioners
City of Campton
Campton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Campton, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Campton, Kentucky's basic financial statements, and have issued our report thereon dated February 6, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 2017-001 and 2017-002.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Campton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2017-003.

City of Campton, Kentucky's Response to Findings

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

Purpose of this Report

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

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

February 6, 2018

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSJune 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-001 The City Should Have Adequate Controls over Disbursements**

Condition: Of the twenty-five disbursements tested during the previous audit, the following were noted:

- Three (3) disbursements were not paid within 30 working days.
- One (1) invoice dated 7/31/2016 was paid by a check dated 6/16/16. The check appeared to have actually been issued in August 2016.

Criteria:

- Proper control dictate all disbursements should have supporting documentation, be approved by the City Commissioners and should be cancelled after payment.
- Per KRS 65.140, unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of a vendor's invoice except when payment is delayed because the purchaser had made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty days which followed receipts of vendor's invoice by the purchaser.
- Checks should be dated for the actual date issued.

Effect: Possible unapproved and/or unnecessary expenditures being paid or misappropriation of funds could occur and not be detected in a timely manner. Also, noncompliance with laws and regulations could occur. Bank reconciliations could be misstated by checks being listed incorrectly as outstanding checks.

Cause: Lack of adequate controls over disbursements.

Recommendations: Previous audit recommended all disbursements be approved by the City and be paid within 30 working days. Previous audit recommended checks be dated as of the date actually issued.

The City's Response: Clerk will work with Assistant Clerk to make sure all disbursements are paid in a timely manner.

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-002 The City Clerk Should Properly Record Expenditures and Revenues**

Condition: During the previous audit it was noted the City did not properly record expenditures and revenues. For instance: A purchase of an excavator and lights in the amount of \$58,653 recorded as an expense rather than a fixed asset. Parks and Recreation expenses in the amount of \$5,123 recorded in the General Fund rather than in the Utility Fund. Telecommunication taxes in the amount of \$6,238 were recorded in the Utility fund rather than the General Fund. Also previous audit noted multiple instances where interest income was not recorded.

Criteria: The City Clerk should properly record expenditures and revenues in the future. The Kentucky Cities Financial Manual Outlines the type of funds for Cities and the type of monies to be recorded into each fund. The revenues and expenditures should also be properly classified by function (i.e. Water or Sewer) to provide meaningful information to the city Commissioners and to aid in preparing reports for DLG.

Effect: Without adequate financial information, the Commissioners members cannot effectively monitor financial activities or make informed financial decisions or detect and correct misstatements on a timely basis.

Cause: Lack of adequate controls over the recording of entries and the failure to detect and correct misstatements on a timely basis.

Recommendation: Previous audit recommended the City Clerk record expenditures and revenues in accordance with the Kentucky Cities Financial Manual. Previous audit also recommend the City Clerk obtain training on the use of QuickBooks and the City's accounting software in order to facilitate the proper preparation of financial information.

The City's Response: Clerk will work on proper preparation of financial information.

2016-003 The City Lacks Adequate Controls over Bank Reconciliation Process

Condition: The previous audit noted the following:

- Interest earned was not recorded in the Water Fund Checking account.
- An un-cleared journal entry was noted in LGEA fund dated 6/30/2009.
- The Water Fund Checking account bank reconciliation contained numerous errors which required the auditor to perform a cash proof.
- A bank reconciliation was not prepared for the Sewer Rehab bank account.

Criteria: Bank reconciliations should reflect the actual book balance at the date the bank reconciliation is performed. Deposits in transit should include receipts on hand,

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-003 The City Lacks Adequate Controls Over Bank Reconciliation Process (Continued)**

Criteria: (continued) but not yet deposited. Outstanding checks and transfers should reflect transactions that were actually initiated prior to the bank reconciliation date.

Effect: Bank reconciliation errors or irregularities may not be detected in a timely manner. The City's decisions may be based on incorrect or incomplete information.

Cause: Lack of internal controls over the bank reconciliation process.

Recommendation: The bank reconciliations should be reviewed each month by a person independent of the reconciliation process and the bank statements should be opened and viewed by an independent person before the statements are given to the City Clerk to reconcile. Previous audit recommended the City Clerk obtain training on the use of QuickBooks and the City's accounting software in order to facilitate the proper preparation of bank reconciliations.

The City's
Response: Clerk will work on correcting the issues with the bank Reconciliations.

2016-004 Reimbursements Were Requested For the Same Pay Requests from More than One Federal Agency (Uncorrected Prior Year Finding)

- A. United States Department of Agriculture
Rural Development
Appalachian Regional Commission Grant
Grant Number: Unknown
CFDA Number: 10.760
Grant period: Fiscal Year Ended June 30, 2015
Questioned Cost: \$45,179
- B. Department of the Army
United States Army Corps of Engineers
Grant Number: Unknown
CFDA Number: Unknown
Grant Period: Fiscal Year Ended June 30, 2015
Questioned Cost: \$181,030
- C. Environmental Protection Agency
Passed through Kentucky Infrastructure Authority
Federally Assisted Revolving Loan Fund A
Grant Number: Unknown
CFDA Number: 66.458
Grant Period: Fiscal Year Ended June 30, 2015
Questioned Cost: \$226,209

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-004 Reimbursements Were Requested For the Same Pay Requests from More than One Federal Agency (Uncorrected Prior Year Finding) (Continued)**

Condition: The City was engaged in a sewer improvement project during the fiscal year ended June 30, 2015. This project was funded by a \$1,400,000 Federally Assisted Revolving Loan Fund, Fund A (the Loan), a \$1,000,000 Community Development Block Grant, a \$275,000 Army Corp of Engineer Grant, and a \$525,000 Appalachian Regional Commission Grant. Draw requests that are being questioned are indicated in the following chart:

<u>Pay Estimate</u>	<u>Originally requested from Federally Assisted Revolving Loan Fund A passed through KIA</u>	<u>Duplicate invoices subsequently requested from US Army Corp of Engineers that were included in original KIA request</u>	<u>Duplicate invoices subsequently requested from Appalachian Regional Commission that were included in original KIA request</u>
9	\$ 91,242.97	\$ 43,993.22	\$ -
10	27,669.79	7,095.68	-
13	15,382.00	14,191.36	-
14	54,320.89	18,448.77	-
15	3,573.45	1,419.14	-
16	18,028.41	2,838.27	-
17	23,917.35	8,514.82	-
18	52,477.23	17,029.63	-
19	42,729.05	28,382.71	-
20	110,675.42	11,974.14	45,178.87
21	19,120.92	8,423.46	-
22	96,800.93	18,718.80	-
	<u>\$ 555,938.41</u>	<u>\$ 181,030.00</u>	<u>\$ 45,178.87</u>

Of the \$555,938 originally requested from the Loan, \$181,030 was also requested from the Army Corp of Engineers using the same invoices previously submitted and reimbursed by the Loan.

Of the \$555,938 originally requested from the Loan, \$45,179 was also requested from the Appalachian Regional Commission Grant using the same invoices previously submitted and reimbursed by the Loan.

CITY OF CAMPTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

June 30, 2017

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -

2016-004 Reimbursements Were Requested For the Same Pay Requests from More than One Federal Agency (Uncorrected Prior Year Finding) (Continued)

Condition: (Continued) The third-party grant administrator contends that the Loan was being used as interim financing because of the delay in reimbursement of Army Corp of Engineer Grant Funds. This Loan provides for 30% of the disbursement amount to be forgiven when the money is disbursed by the funding agency.

Two of the duplicate reimbursements from the Army Corp of Engineers were received in December 2014 and March 2015. As of the date of our audit report no repayments had been made with these funds. The cash balance in the project account at June 30, 2015 was \$225,797, and at June 30, 2016 was \$170,458. This balance appears to be the result of the duplicate billings outlined above. Previous audit believed 100% of the interim financing drawdowns should be reimbursed to the EPA. The draws used as interim financing equal \$225,761. Accordingly, ARC reimbursed \$45,178.87 and the Corp of Engineers reimbursed \$180,492.10. If the City only returns 70% or \$157,969.67, 30% or \$67,701.29 would be excess funds.

Criteria: The same supporting documentation for expenditures should not be submitted to two different federal funding agencies. If the Loan was being used for interim financing purposes, requests for funds should have indicated such. If a forgivable loan is used as interim financing, One Hundred Percent (100%) of the amount used as interim financing should be applied against the loan as soon as grant proceeds from the other granting agency is received. A project bank account that is funded by reimbursable grants/loans is considered a revolving bank account. This means that any reimbursements received from the federal agencies should be disbursed to the appropriate parties within 3 business days of receipt.

According to the ARC Grant document in Section J, "Grantee agrees that Grantee will return immediately to Grantor, as required by the regulations of Grantor, any grant funds actually advanced and not needed by Grantee for approved purposes."

Context: One Hundred Percent (100%) of the Appalachian Regional Commission, Federally Assisted Revolving Loan Fund, Fund A, and Army Corp of Engineer grant/loan requests for reimbursement during the fiscal year were tested.

Effect: Costs are questioned as a result of requests being made to two different funding sources for the same expenditures.

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-004 Reimbursements Were Requested For the Same Pay Requests from More than One Federal Agency (Uncorrected Prior Year Finding) (Continued)**

Cause: Failure of the third party grant administrator to comply with allowable cost/cost principles.

Recommendation: Previous audit recommended City officials, the third party grant administrator, a representative from the Appalachian Regional Commission, the Environmental Protective Agency, and the Army Corp of Engineers participate in a meeting to determine which agency is to be reimbursed due to the drawdowns of duplicate payments.

The City's Response: City will work with Agencies to get a meeting scheduled.

2016-005 The City Clerk Should Prepare a Complete and Accurate Schedule of Expenditures of Federal Awards

Condition: Previous audit noted that the City Clerk did not prepare a complete and accurate schedule of expenditure of federal awards.

Criteria: Section 200.510 of the OMB Uniform Guidance for Audits of State, Local Governments and Non-Profit Organization states: The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal award or by Federal agency and major subdivision within the Federal agency.
- For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available, for a cluster of programs also provide the total for the cluster.
- Include the total amount provided to sub-recipients from each Federal program.

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-005 The City Clerk Should Prepare a Complete and Accurate Schedule of Expenditures of Federal Awards (Continued)**

Criteria: (Continued)

- For loan or loan guarantee programs described in 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in 200.414 Indirect (F&A) costs.

Effect: Federal sources of funds may be missed, therefore affecting compliance with federal grant requirements and the need for a single audit.

Cause: Lack of internal control requiring the completion of the Schedule of Expenditures of Federal Awards and the determination of the need for a single audit.

Recommendation: Previous audit recommended that the City Clerk prepare a complete and accurate schedule of expenditures of federal awards. It may be easier to maintain this schedule if it is updated throughout the year.

The City's Response: Clerk will complete an accurate Schedule of expenditures of federal awards.

2016-006 The City Commissioners Should Approve the Opening of All Bank Accounts

Condition: Two bank accounts were opened without the approval of the City Commissioners. The two accounts opened were the USDA RD Bonds account and the USDA RD excavator and lights account.

Criteria: The City Commissioners should approve the opening of all bank accounts to ensure they are aware of all bank accounts held in the City's name.

Effect: Accounts may be opened in the City's name without the City Commissioner's knowledge.

Cause: Failure to obtain approval from the City Commissioners and document such approval in the official minutes prior to opening the accounts.

Recommendation: Previous audit recommended the City ensure that approval is received and documented in the official minutes prior to any City bank account being opened.

The City's Response: The City will have all new bank Accounts approved prior to opening.

CITY OF CAMPTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

June 30, 2017

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -

2016-007 The City Should Maintain Accurate Vacation and Sick Leave Balances

Condition: Previous audit noted that employee paystub sick and vacation balances did not agree with employee time off accrued and used balance reports. During the previous audit inquiries were made of the City Clerk as to why these reports did not agree and she had no explanation.

Criteria: Accurate vacation and sick leave balances should be maintained by the City Clerk. All documents presenting such balances should agree.

Effect: Employees' sick and vacation leave balances may be inaccurate resulting in employee's receiving benefits they have not earned or not receiving benefits they have earned.

Cause: Lack of adequate internal controls over sick and vacation leave balances.

Recommendation: Previous audit recommended the City Clerk investigate the differences between the paystubs and the employee time off accrued and used balance reports and adjust accruals as deemed necessary. Previous audit recommended that the City Clerk periodically compare the paystub to the report. Previous audit further recommend that the clerk periodically compare the employees' balances to timesheets to ensure amounts being used and accrued are being recorded correctly by the accounting system.

The City's Response: Clerk will run reports with each pay stub to check balances.

2016-008 The City Should Comply With Bond Covenants

Condition: Previous audit noted the following:

- A Revenue Fund was not established
- A Sinking Fund was not established.
- The balance maintained in the Operation and Maintenance Fund was in excess of the amount required to cover anticipated expenditures for a two-month period.
- Expenditures were in excess of the amounts provided for operating expenses in the annual budget without a resolution by the City Commissioners.
- The annual audit was not sent to Rural Development timely.
- A City Commissioner authorized as check signer is not covered by a fidelity bond.

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-008 The City Should Comply With Bond Covenants (Continued)**

- Criteria: Per the bond agreement, the City shall:
- Establish a separate and special fund known as the Revenue Fund and shall use, disburse, and apply the monies in the revenue fund only for the purpose and in the manner and order of priorities specified. The City shall transfer monthly from the Revenue Fund and deposit into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the system.
 - Establish a Sinking Fund and there shall be transferred monthly from the Revenue Fund on or before the 20th of each month an amount equal to 1/6 of the next succeeding six-month interest payment and an amount equal to 1/12 of the next succeeding principal payment.
 - Not maintain a balance in the Operation and Maintenance Fund in excess of the amount required to cover the anticipated system expenditures for a two-month period pursuant to the annual budget.
 - Not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the City that such expense is necessary to operate and maintain they system.
 - Cause an annual audit to be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each fiscal year, copies of such audit shall be promptly mailed to the RD with request.
 - Maintain fidelity bond coverage in the amount of not less than \$132,000. All authorized check signers should be covered by such fidelity bond.
- Effect: The City may not be in compliance with bond covenants.
- Cause: Previous audit recommended the City familiarize themselves with all bond covenants.
- The City's Response: Clerk will work with City Attorney to familiarize with all bond covenants.

2016-009 The City Of Campton Failed To File Consumer Confidence Reports (CCR) and CCR Certification Timely

- Condition: Previous audit noted the City was assessed and paid a \$1,000 penalty to the Kentucky Department for Environmental Protection, Division of Enforcement, for violation of KRS Chapter 224.
- Criteria: Violation of KRS Chapter 224 and regulations promulgated pursuant thereto, and failure to meet the terms and conditions of Agreed Order DOW 1300040.

CITY OF CAMPTONSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)June 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2016-009 The City Of Campton Failed To File Consumer Confidence Reports (CCR) and CCR Certification Timely (Continued)**

Effect: In accordance with paragraph 12 Agreed Order DOW 130040 the Cabinet may assess a stipulated penalty of \$1,000 for any failure to comply with any requirement of paragraph 10, which states "Campton shall fill out and submit CCR's and CCR Certification to the Division of Water by July 1st annually".

Cause: The City of Campton failed to meet the terms and conditions of Agreed Order DOW 130040 executed by the Kentucky Energy and Environment Cabinet's Secretary on January 8, 2014. Between July 26, 2012 and October 3, 2014 the Cabinet issued three (3) Notices of Violation to Campton, citing 401 KAR 8:075 Section 2, for failure to prepare and submit a Certification of distribution of the report that conforms to the requirements of KAR 8:075 for the calendar year.

Recommendation: Previous audit recommended that the City comply timely with all notification of violations to avoid incurring financial penalties from regulatory agencies.

The City's Response: The City will comply timely with all future notification of violations to avoid incurring financial penalties.

2016-010 Reimbursements Were Requested For the Same Pay Requests from More Than One Federal Agency (Uncorrected Prior Year Finding)

See 2016-004 for details.

CITY OF CAMPTON

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

2017-001 The City Should Have Adequate Controls over Payroll Disbursements

Condition:	Our examination of payroll transaction for a sample payroll period noted the following: <ul style="list-style-type: none"> • One payroll check, #32328, was dated after the bank disbursement date; • Overtime rate was paid for 7.68 hours sick time, #32301; • #32313, paid for 13.5 hours overtime, time card calculated to 6.5 overtime hours; • #32307, time sheet noted 10.5 hours, no daily time recorded.
Criteria:	Adequate controls should indicate underlying payroll documentation is compared to payments before checks are remitted.
Effect:	Without adequate controls, the City may be paying inaccurate and/or unauthorized amounts for which refunds may be due
Cause:	The review process for payroll was not adequately reviewing payments to underlying documents.
Recommendation:	The City should assure payroll documentation is compared to payments before checks are remitted.
The City's Response:	Management will work to enhance its controls in this area minimizing clerical errors and any under/over payments.

2017-002 The City Should Have Adequate Controls over Inventory

Condition:	When inquiring regarding the City's control over consumable inventory we noted the following conditions which may lead to misappropriation or theft: <ul style="list-style-type: none"> • A perpetual or periodic record of consumable inventory is not maintained. • Eight keys are issued for the area where inventory is generally maintained.
Criteria:	Physical counts of inventory should be periodically reconciled to receiving reports.
Effect:	Without adequate controls, the City has a greater risk assets may be misappropriated or fraud could occur.
Cause:	No inventory is maintained. Access to the facility is not controlled.

CITY OF CAMPTONSCHEDULE OF FINDINGS AND RESPONSES (Continued)June 30, 2017**2017-002 The City Should Have Adequate Controls over Inventory (Continued)**

Recommendation: The City should assure a periodic count of inventory is compared to purchase records and receiving reports. Management should strengthen its physical controls over the facility where inventory is stored.

The City's Response: Management will consider establishing controls to assure documentation is compared to periodic counts. Management will assess its key distribution and access documentation.

2017-003 Unauthorized Bonus Pay was paid to City Employees

Condition: Our test sample of disbursement transactions noted \$100 bonuses paid to City employees. The payments were posted to general ledger accounts other than salaries.

Criteria: KRS 83A.070 require compensation of employees to be set by ordinance. In addition, employees may only be paid for services actually rendered.

Effect: The City paid unauthorized compensation to its employees.

Cause: The City paid compensation contrary to its authorized budget.

Recommendation: The City should assure compensation paid to employees aligns with applicable statutes and budget provisions.

The City's Response: Management will pay compensation based on applicable statutes and approved budgets.

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF CAMPTON

For the year ended June 30, 2017

The City of Campton hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by applicable Kentucky Revised Statutes.


Raymond Banks, Mayor