

City of Campbellsburg, Kentucky

Financial Statements

June 30, 2009

With

Independent Auditor's Report

**City of Campbellsburg, Kentucky**  
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# CMR Accounting PSC

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## INDEPENDENT AUDITOR'S REPORT

The Hon. Jan Fletcher, Mayor  
and Members of the City Council  
Campbellsburg, Kentucky 40011

I 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 Campbellsburg, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Campbellsburg, Kentucky, management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Campbellsburg, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, when applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2010, on my consideration of City of Campbellsburg, Kentucky's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5, 25 through 26 and 29 through 30 are not required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Campbellsburg, Kentucky, basic financial statements. The combining and individual non-major funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

CMR Accounting PSC

CMR Accounting PSC  
Smithfield, Kentucky 40068  
July 12, 2010

**City of Campbellsburg, Kentucky**  
**Management's Discussion and Analysis**  
**June 30, 2009**

This discussion and analysis is intended to be an easily readable analysis of the City of Campbellsburg (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the fiscal year ending June 30, 2009 by \$3,609,176 (net assets). Of this amount \$936,682 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. However, of this amount, \$216,271 is the accumulation of the sewer surcharge.
- The City's total net assets increased by \$343,581 for the year ended June 30, 2009. The increase of \$138,526 in the governmental funds can be attributed to a decrease in expenditures.

**Overview of the Financial Statements**

Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and the notes to the financial statements. The discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e., roads, improvements, and sewer lines, etc.) to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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

- Governmental Activities – Most of the City's basic services are reported here, including the police, fire, parks and recreation, and general administration. Property taxes, franchise fees, and insurance premium taxes finance most of these activities.
- Business-type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Sewer system is reported here.

**City of Campbellsburg, Kentucky**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2009**

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

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

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

The City maintains three individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Special Revenue Fund, and the Debt Service Fund.

- Proprietary funds – The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City enterprise fund is identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City maintains one enterprise fund. The City uses enterprise funds to account for its sewer services and garbage collection.

**Notes to the Financial Statements**

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

**Other Information**

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

**City of Campbellsburg, Kentucky**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2009**

**The City as a whole – Government-wide financial Analysis**

A condensed version of the Statement of Net Assets at June 30, 2009 and 2008 follows:

	2009 Governmental Activities	2008 Governmental Activities	2009 Business-type Activities	2008 Business-type Activities
Cash and time deposits	704,488	\$ 553,201	706,714	\$ 739,323
Other Assets	65,604	63,655	5,093	5,493
Capital Assets	110,831	132,236	3,208,328	2,968,869
Total Assets	<u>880,923</u>	<u>749,092</u>	<u>3,920,135</u>	<u>3,713,685</u>
Other Liabilities	8,416	15,111	53,466	27,072
Long Term Outstanding	-	-	1,130,000	1,155,000
Total Liabilities	<u>8,416</u>	<u>15,111</u>	<u>1,183,466</u>	<u>1,182,072</u>
Net Assets:				
Invested in capital assets, net of debt	110,831	132,236	2,048,437	1,813,869
Restricted	84,246	74,557	428,979	480,992
Unrestricted	677,430	527,188	259,253	236,752
Total Net Assets	<u>872,507</u>	<u>\$ 733,981</u>	<u>2,736,669</u>	<u>\$ 2,531,613</u>

During the year ended June 30, 2009 the construction in progress of the Carrollton force main project was a significant change in net assets.

A condensed version of the Statement of Activities follows at June 30, 2009 and 2008:

	2009 Governmental Activities	2008 Governmental Activities	2009 Business-type Activities	2008 Business-type Activities
Revenues				
Program revenues				
Charges for Services	41,307	\$ 44,104	69,526	\$ 69,656
Grants	25,102	36,744	83,297	904,829
General Revenues				
Property Taxes	69,170	69,365	-	-
Insurance Prem. Tax	108,274	109,338	-	-
Other Revenue	115,802	29,678	-	-
Interest Income	6,153	8,619	5,904	4,554
Total Revenues	<u>365,810</u>	<u>297,848</u>	<u>274,567</u>	<u>979,039</u>

**City of Campbellsburg, Kentucky**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2009**

condensed version of the Statement of Activities follows at June 30, 2009 and 2008 (continued):

Expenses				
General Government	\$ 127,202	\$ 125,364	\$ -	\$ -
Police	50,732	64,749	-	-
Fire	11,600	21,600	-	-
Streets	6,313	12,268	-	-
Parks & Recreation	3,793	648	-	-
Sanitation	27,644	28,254	-	-
Operation	-	-	6,435	7,453
Depreciation	-	-	39,502	27,487
Interest	-	268	23,574	-
Total Expenses	<u>227,284</u>	<u>253,151</u>	<u>69,511</u>	<u>34,940</u>
Change in Net Assets	138,526	44,697	205,056	944,099
Beginning Net Assets	<u>733,981</u>	<u>689,284</u>	<u>2,531,613</u>	<u>1,587,514</u>
Ending Net Assets	<u><u>872,507</u></u>	<u><u>\$ 733,981</u></u>	<u><u>2,736,669</u></u>	<u><u>\$ 2,531,613</u></u>

### Capital Assets

At June 30, 2009, the City had \$3,319,159 invested in capital assets, consisting primarily of the sewer system and the Carrollton force main project being constructed.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	13,718	19,400	33,118
Sewer System	-	3,920,642	3,920,642
Buildings & Improvements	130,914	-	130,914
Construction in process	-	101,836	101,836
Machinery & Equipment	146,009	23,306	169,315
Infrastructure	<u>69,400</u>	<u>-</u>	<u>69,400</u>
Subtotal	<u>360,041</u>	<u>4,065,184</u>	<u>4,425,225</u>
Accumulated Depreciation	<u>(249,210)</u>	<u>(856,856)</u>	<u>(1,106,066)</u>
Capital Assets, net	<u><u>110,831</u></u>	<u><u>3,208,328</u></u>	<u><u>3,319,159</u></u>

### Debt Outstanding

At the year-end debt consisted of \$1,143,000 in outstanding bonds payable for the construction of the Carrollton force main project.

### Financial Contact

The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Clerk at 8142 Main street, Campbellsburg, Kentucky 40011.

# City of Campbellsburg, Kentucky

## Statement of Net Assets

June 30, 2009

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and time deposits	\$ 704,488.32	\$ 706,714.49	\$ 1,411,202.81
Accounts receivable (net)	27,835.88	16,995.18	44,831.06
Property tax receivable (net)	1,159.66	-	1,159.66
Interest receivable	317.88	-	317.88
Internal balances	11,902.86	(11,902.86)	-
Prepaid Expenses	15,022.00	-	15,022.00
Due from other governments	9,365.32	-	9,365.32
Capital assets:			
Land	13,717.80	19,400.00	33,117.80
Construction in progress	-	101,835.53	101,835.53
Other capital assets, net of depreciation	97,113.25	3,087,092.89	3,184,206.14
<b>Total Assets</b>	<b>\$ 880,922.97</b>	<b>\$ 3,920,135.23</b>	<b>\$ 4,801,058.20</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 4,066.41	\$ 53,466.04	\$ 57,532.45
Accrued payroll and liabilities	-	-	-
Deferred revenue	4,350.00	-	4,350.00
Noncurrent liabilities			
Due in more than one year	-	1,130,000.00	1,130,000.00
<b>Total Liabilities</b>	<b>\$ 8,416.41</b>	<b>\$ 1,183,466.04</b>	<b>\$ 1,191,882.45</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related cost	110,831.05	2,048,436.73	2,159,267.78
Restricted for:			
Streets	84,245.97	-	84,245.97
Capital project	-	428,979.21	428,979.21
Unrestricted	677,429.54	259,253.25	936,682.79
<b>Total Net Assets</b>	<b>\$ 872,506.56</b>	<b>\$ 2,736,669.19</b>	<b>\$ 3,609,175.75</b>



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**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (121,392.66)	\$ -	\$ (121,392.66)
(39,564.79)	-	(39,564.79)
(11,600.00)	-	(11,600.00)
7,621.99	-	7,621.99
(3,792.78)	-	(3,792.78)
7,852.57	-	7,852.57
<u>(160,875.67)</u>	<u>-</u>	<u>(160,875.67)</u>
-	83,311.37	83,311.37
-	83,311.37	<u>(77,564.30)</u>
69,169.93	-	69,169.93
108,274.36	-	108,274.36
94,532.35	115,840.00	210,372.35
21,269.22	-	21,269.22
6,155.31	5,904.43	12,059.74
<u>299,401.17</u>	<u>121,744.43</u>	<u>421,145.60</u>
138,525.50	205,055.80	343,581.30
733,981.06	2,531,613.39	3,265,594.45
<u>\$ 872,506.56</u>	<u>\$ 2,736,669.19</u>	<u>\$ 3,609,175.75</u>

**City of Campbellsburg, Kentucky**  
**Balance Sheet Governmental Funds**

June 30, 2009

	<b>General</b>	<b>Special Revenue</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 416,461.56	\$ 81,226.76	\$ 497,688.32
Certificates of Deposit	205,000.00	1,800.00	206,800.00
Accounts receivable, net	28,995.54	-	28,995.54
Interest receivable	317.88	-	317.88
Interfund	11,902.86	-	11,902.86
Due from other governments	8,146.11	1,219.21	9,365.32
Prepaid expenses	15,022.00	-	15,022.00
Total Assets	<u>\$ 685,845.95</u>	<u>\$ 84,245.97</u>	<u>\$ 770,091.92</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 4,066.41	\$ -	\$ 4,066.41
Deferred revenue	4,350.00	-	4,350.00
Accrued liabilities	-	-	0.00
Total liabilities	<u>8,416.41</u>	<u>-</u>	<u>8,416.41</u>
Fund balances:			
Reserved for prepaids	15,022.00	-	15,022.00
Reserved for streets	-	84,245.97	84,245.97
Unreserved—undesignated, reported in:			
General Fund	662,407.54	-	662,407.54
Total fund balances	<u>677,429.54</u>	<u>84,245.97</u>	<u>761,675.51</u>
Total liabilities and fund balances	<u>\$ 685,845.95</u>	<u>\$ 84,245.97</u>	<u>\$ 770,091.92</u>

**City of Campbellsburg, Kentucky**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
June 30, 2009

Fund balances—total governmental funds	\$ 761,675.51
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Add—capital assets	360,041.07
Deduct—accumulated depreciation	(249,210.02)

Net assets of governmental activities	<u>\$ 872,506.56</u>
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**City of Campbellsburg, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
For the year ended June 30, 2009

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 69,169.93	\$ -	\$ 69,169.93
Insurance premium tax	108,274.36	-	108,274.36
Franchise taxes	21,269.22	-	21,269.22
Bank deposit tax	6,884.86	-	6,884.86
Business licenses	5,809.00	-	5,809.00
Sanitation receipts	35,497.61	-	35,497.61
Interest on investments and deposits	5,642.11	513.20	6,155.31
Miscellaneous	9,457.40	-	9,457.40
Proceeds from outside sources			
HB 272	736.23	-	736.23
Grants HB 413	10,585.85	-	10,585.85
Municipal road aid	-	12,894.36	12,894.36
Severance tax - LGFA	-	1,040.23	1,040.23
Police incentive	581.51	-	581.51
<b>Total Revenues</b>	<u>273,908.08</u>	<u>14,447.79</u>	<u>288,355.87</u>
<b>Expenditures</b>			
General Government	121,259.63	-	121,259.63
Public safety			
Police department	45,629.15	-	45,629.15
Fire department	10,000.00	-	10,000.00
Street department	1,653.43	4,659.17	6,312.60
Parks and recreation	3,792.78	-	3,792.78
Sanitation	27,645.04	-	27,645.04
Capital Outlay	-	-	-
<b>Total Expenditures</b>	<u>209,980.03</u>	<u>4,659.17</u>	<u>214,639.20</u>
Excess (deficiency) of revenues over (under) expenditures	63,928.05	9,788.62	73,716.67
<b>OTHER SOURCES (USES)</b>			
Insurance claim proceeds	84,127.68	-	84,127.68
<b>Total other financing sources (uses)</b>	<u>84,127.68</u>	<u>-</u>	<u>84,127.68</u>
<b>NET CHANGE IN FUND BALANCE</b>	148,055.73	9,788.62	157,844.35
<b>FUND BALANCE, JULY 1</b>	529,373.81	74,457.35	603,831.16
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 677,429.54</u>	<u>\$ 84,245.97</u>	<u>\$ 761,675.51</u>

**City of Campbellsburg, Kentucky**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
For the year ended June 30, 2009

Net change in fund balances—total governmental funds	\$ 157,844.35
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Amounts reported for governmental activities in the statement of activities are different because:

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

Add - capital outlay	-
Deduct—depreciation expense	(14,731.00)

The decrease in compensated absences liability does not increase the current financial resources but is recorded as a decrease to expenses in the statement of activities

Add—difference in compensated absences liability	2,085.97
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Insurance proceeds from the destruction of the fire house by fire is recorded in the governmental funds as income. On the statement of net assets, the amount is net of cost and accumulated depreciation

Deduct—difference of insurance proceeds	<u>(6,673.82)</u>
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Change in net assets of governmental activities	<u><u>\$ 138,525.50</u></u>
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**City of Campbellsburg, Kentucky**  
**Statement of Net Assets**  
**Sewer Fund**  
June 30, 2009

**ASSETS**

Current assets:

Cash and time deposits	\$ 706,714.49
Accounts receivable (net)	16,995.18
Total current assets	<u>723,709.67</u>

Noncurrent assets:

Interfund	(11,902.86)
Capital assets	
Land	19,400.00
Construction in process	101,835.53
Other capital assets, net of depreciation	3,087,092.89
Total non current assets	<u>3,196,425.56</u>
Total assets	<u><u>\$ 3,920,135.23</u></u>

**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	\$ 53,466.04
Accrued payroll and liabilities	-
Total current liabilities	<u>53,466.04</u>

Non-current liabilities:

Bonds payable	1,130,000.00
Total non-current liabilities	<u>1,130,000.00</u>
Total liabilities	<u><u>\$ 1,183,466.04</u></u>

**NET ASSETS**

Invested in capital assets, net of related debt	2,048,436.73
Restricted	428,979.21
Unrestricted	259,253.25
Total net assets	<u><u>\$ 2,736,669.19</u></u>

**City of Campbellsburg, Kentucky**  
**Statement of Revenues, Expenses**  
**and Changes in Net Assets**  
**Proprietary Fund**  
For the year ended June 30, 2009

Operating Revenues:	
Charges for services	\$ 69,525.88
Miscellaneous	-
Total operating revenues	<u>69,525.88</u>
Operating expenses:	
Personnel services	-
Operations and maintenance	6,435.00
Depreciation	39,502.00
Total operating expenses	<u>45,937.00</u>
Operating income (loss)	<u>23,588.88</u>
Non-operating revenues (expenses):	
Interest and investment earnings	5,904.43
KIA Grant Income	83,296.86
Sale of surplus pipe	115,840.00
Interest expense	(23,574.37)
Net non-operating revenues (expenses)	<u>181,466.92</u>
Change in net assets	205,055.80
Total net assets at beginning of year	<u>2,531,613.39</u>
Total net assets as end of year	<u>\$ 2,736,669.19</u>



**City of Campbellsburg, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the year ended June 30, 2009

**Business-type Activities -  
Enterprise Fund**

	<u><b>Sewer Fund</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 69,926.62
Cash payments to suppliers for goods and services	(9,685.00)
Net cash provided by (used for) operating activities	<u>60,241.62</u>
<b>CASH FLOWS FROM CAPITAL AND REL. FINANCING ACTIVITIES</b>	
Construction in process	(262,069.66)
Sale of surplus pipe	115,840.00
Net cash used for capital and related financing activities	<u>(146,229.66)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	5,904.43
KIA capital grant proceeds	83,296.86
Bond principal payment	(12,000.00)
Interest expense	(23,821.89)
Net cash provided by (used for) investing activities	<u>53,379.40</u>
Net increase (decrease) in cash and cash equivalents	(32,608.64)
Cash and cash equivalents--beginning of the year	739,323.13
Cash and cash equivalents--end of the year	<u><u>\$ 706,714.49</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ 23,588.88
Adjustments	
Depreciation	39,502.00
Net changes in assets and liabilities	
Accounts receivable	400.74
Accounts payable	(3,250.00)
Other	
Net cash provided by (used for) operating activities	<u><u>\$ 60,241.62</u></u>

**City of Campbellsburg**  
**Notes to the Financial Statements**  
**June 30, 2009**

**NOTE 1 - Summary of Significant Accounting Policies**

Introduction

The City of Campbellsburg, Kentucky is incorporated and operates under a Mayor-Council form of government and provides traditional municipal services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City (the Primary Government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. None are considered major component units for reporting purposes.

The accounting reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of these Notes. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2009.

Financial Reporting Entity

City of Campbellsburg, Kentucky is a city in which citizens elect the mayor and six council members. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Due to restrictions of the Commonwealth of Kentucky relating to the issuance of municipal debt, the City created the Campbellsburg Public Properties Corporation for non-general obligation financing. Financing services provided by this Corporation are solely for the benefit of the City. This Corporation is blended into the City's primary government although retaining legal identity.

Based on the criteria of a component unit, the Campbellsburg Volunteer Fire Department is considered a separate entity and is not included in the City's reporting entity.

BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the Primary Government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities for the City include general government, public safety (police and fire), public improvements, parks and recreation, and general administrative support services. The business-type activities of the City include the Sewer System.

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatched interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if susceptible to accrual criteria are met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates fund according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental fund:

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

The General Fund is the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other funds.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the activities of providing sewer service to the citizens of the City. The services are provided and billed by Carrollton Utilities.

Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Property Taxes

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

Capital Assets

Capital assets, which include land, buildings, and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial individual cost of \$1,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of \$47,643.75 was capitalized on the Carrollton force main sewer project during the year ended June 30, 2009.

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 to 50
Improvements other than buildings	10 to 40
Infrastructure	15 to 75
Utility systems	20 to 40
Machinery and equipment	5 to 15

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

As a result of the implementation of GASB 34, the City is accounting for infrastructure assets on its financial statements. The government-wide financial statements include those infrastructure assets that were either completed during the current fiscal year or considered construction in progress at current fiscal year-end. However, the government-wide financial statements do not reflect those infrastructure assets completed prior to July 1, 2001.

Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. The City's restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budget Policy and Practice

In accordance with the City policies, prior to June 1, the Mayor submits to the City Council a proposed operating budget in the form of an ordinance for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. The City budget is submitted in summary form. Public hearings are conducted to obtain taxpayer comment. The approved budget ordinance is then published. Budgets for the General Fund, the Special Revenue Fund and the Proprietary Fund are adopted. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) and appropriations lapse at the end of each fiscal year. The budget was amended once during the year.

Compensated Absences

Each full-time employee is granted sick leave at the rate of one day per month and each part-time employee at one-half of full-time rate. Unused sick leave can be accumulated. A portion of vacation time not taken during the year is accumulated. The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by City employees.

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

The City has not accrued a liability for sick leave which has been earned but not taken by City employees that did not meet the above criteria.

Statement of Cash Flows, Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the City considers all highly liquid investments (certificates of deposit) to be cash equivalents.

Long-Term Liabilities

In the government-wide financial statements and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**NOTE 2 - Cash and Investments**

At year-end, the carrying amount of the City's deposits (checking and savings accounts) was \$1,146,662.81 and the bank balance was \$1,151,757.59. Of the bank balance, all deposits were covered by federal depository insurance or by collateral held in the pledging bank's trust department or by its agent in the City's name.

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Investments at June 30, 2009, were all certificates of deposit in one financial institution. The carrying amount and bank balances of \$264,540.00 were the same amount for the certificates of deposits, and the total investment was covered by federal depository insurance and by collateral held by its agent in the City's name.

**NOTE 3 - Receivables and Payables**

Outstanding balances between funds are reported as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

All receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2009 the allowance for uncollectible accounts for governmental activities was \$6,603.34.

**NOTE 4 - Reservations and Designations of Fund Equity**

Due to their non-liquidity, the City has reserved the following amount of the general fund balance at June 30, 2009:

Prepaid Expense	\$ 15,022.00
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**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 5 - Deferred Revenue**

Governmental funds report deferred revenue in connection with resources that have been received as year-end, but are not yet earned.

**NOTE 6 - The County Employee's Retirement System**

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by Ordinance of the City Council in July, 1992. Beginning January 1, 1993, electing employees and all new employees of the City may participate in the System. The most recent financial report on CERS is included in the Kentucky Retirement system's annual report, June 30, 2008. Copies of this report were distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies are also available to Legislative personnel and state libraries.

*Non-Hazardous Employees Pension Plan*

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Contributions - For the year ended June 30, 2009, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2009, participating employers contributed 13.50% of each employee's creditable compensation.

For non-hazardous duty, contributions to the plan were as follows:

	Annual Required Contributions	Actual Contributions	Percentage Contributions
June 30, 2008	\$ 544,853,127	\$ 353,038,626	64.8
June 30, 2007	\$ 398,108,795	\$ 281,493,082	70.7
June 30, 2006	\$ 356,066,426	\$ 219,701,869	61.7

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 6 - The County Employee's Retirement System (continued)**

*Hazardous Employee Pension Plan*

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time member's employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirements, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Contributions - For the year ended June 30, 2009, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new second year of a biennium, it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2009, participating employers contributed 29.50% of each employee's creditable compensation.

For hazardous duty, the required contributions to the plan were as follows:

	Annual Required Contributions	Actual Contributions	Percentage Contributions
June 30, 2008	\$ 232,805,702	\$ 162,687,708	70.0
June 30, 2007	\$ 169,828,737	\$ 132,282,426	101.6
June 30, 2006	\$ 142,356,939	\$ 114,830,263	80.7

The City's total payroll (both non-hazardous and hazardous duty employees) for the fiscal year ending June 30, 2009, was \$66,262.17. Contributions were based on \$34,717.03 (eligible gross wages). Eligible gross wages were for both non-hazardous and hazardous duty employees. The total pension expense for the fiscal year ended June 30, 2009, was \$5,806.99 and \$1,947.73 for the employer and employees, respectively. All contributions were made as required during the fiscal year ended June 30, 2009. The City's contribution for the year ended June 30, 2009, was less than .001% of the System's total contribution requirements for all employers.

**NOTE 7 - State Governmental Aid**

The Special Revenue Fund accounts for the allocation of Municipal Road Aid funds from the state which are for design, right-of-way acquisitions, relocation of utilities, construction and other municipal road expenditures. Funds received by the City from the Municipal Road Aid Program were expended as required. The local Government Economic Assistance received from the State Coal and Mineral Severance Tax is also accounted for in the Special Revenue Fund.



**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 8 - Interfund Receivable and Payable**

Interfund balances at June 30, 2009, consisted of the following individual fund receivable and payable:

	Receivable	Payable
General Fund		
Sewer Fund	\$11,902.86	\$ -
Sewer Fund		
General Fund	\$ -	\$11,902.86

**NOTE 9 - Inter-Local Agreement**

The City signed on September 27, 2005 an inter-local operating agreement providing for a regional sewer system with the City of Carrollton Providing sewer service to the City of Campbellsburg.

**NOTE 10 - Grants**

The City was awarded the following grants from the Commonwealth of Kentucky. These grants are for the construction of the force main to Carrollton project. The project number is SX21103002. Details of the grants are as follows:

Grant ID#145T-2005 executed March 22, 2006 from Infrastructure for economic development for tobacco/coal producing counties which is managed by the Kentucky Infrastructure Authority. The full amount of \$750,000 was received in the prior year.

Grant ID#343N-2007 from Infrastructure for economic development fund for 2007 in the amount of \$1,000,000. During the year ended June 30, 2009, \$83,296.86 had been requested and received for a total of \$1,000,000.00 to date.

On September 6, 2006, the City was awarded a wastewater grant from the United States Department of Agriculture - Rural Utilities Service. The amount is \$495,000 or 13.83% of development costs, whichever is the lesser. At June 30, 2009 \$163,100.00 had been requested and received in a prior year.

**NOTE 11 - City of Campbellsburg Sewer System Revenue Bonds, series 2006**

For the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the sewer system of the City in accordance with plans and specifications proposed by Tetra Tech, Inc., On June 15, 2007 the City issued revenue bonds in the amount of \$1,155,000. The bonds mature annually from January 1, 2009 to January 1, 2046 in varying amounts from \$12,000 to \$58,000. Interest at 4.125 per annum is payable January 1 and July 1. The bonds are payable from and secured by the gross revenues derived from the operation of the sewer system. Monthly deposits of \$525 are to be paid to a depreciation fund until the amount of \$63,000 has been accumulated. Also, 1/6 of the

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 11 - City of Campbellsburg Sewer System Revenue Bonds, series 2006 (continued)**

six month interest payment and 1/12 of the annual principal payment is to be deposited in a sinking fund. The bond principal and interest payments to maturity are as follows:

	Interest	Principal	Outstanding
			1,143,000.00
2009-2010	46,880.62	13,000.00	1,130,000.00
2010-2011	46,344.38	13,000.00	1,117,000.00
2011-2012	45,787.50	14,000.00	1,103,000.00
2012-2046	951,699.37	1,103,000.00	-
	1,090,711.87	1,143,000.00	

**NOTE 12 - Force Main to Carrollton Project**

On April 23, 1999, the City entered into an agreed order with the Commonwealth of Kentucky Division of Water. The City placed a surcharge, which is still in place, on all users of City utilities of help cover the cost of this agreed order. This agreed order was superseded by Agreed Order No. 98179 dated August 13, 2001. The City has entered into a contract with Salmon Construction for the construction of a force main to connect to the City of Carrollton regional wastewater treatment center. The cost of this project is budgeted at \$ 3,580,000.00 and is to be financed as follows:

Local Contribution	\$ 180,000.00
KIA TDF Grant	750,000.00
KIA TDF Grant	1,000,000.00
Rural Development Grant	495,000.00
Rural Development Loan	1,155,000.00

The original contract with Salmon Construction was \$2,591,969.60. Change orders were executed bringing the contract amount to \$2,442,116.63. As of June 30, 2009, Salmon Construction had billed \$2,442,116.63 of which the City had paid in full. The total expended on phase I of the project as of June 30, 2009 was \$2,883,528.11. Another \$101,835.53 was expended on phase II.

**City of Campbellsburg**  
**Notes to the Financial Statements (continued)**  
**June 30, 2009**

**NOTE 13 - Capital Assets**

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Governmental activities:				
Capital assets, not being depreciated:				
Land	13,717.80	-	-	13,717.80
Capital assets, being depreciated:				
Buildings and improvements	187,170.23	-	56,255.82	130,914.41
Machinery and equipment	146,009.34	-	-	146,009.34
Infrastructure	69,399.52	-	-	69,399.52
Total capital assets, being depreciated	402,579.09	-	56,255.82	346,323.27
Less accumulated depreciation for:				
Buildings and improvements:	(110,196.00)	(3,421.00)	(49,582.00)	(64,035.00)
Machinery and equipment	(107,276.98)	(11,128.00)	-	(118,404.98)
Infrastructure	(66,588.04)	(182.00)	-	(66,770.04)
Total accumulated depreciation	(284,061.02)	(14,731.00)	(49,582.00)	(249,210.02)
Total capital assets, being depreciated, net	118,518.07	(14,731.00)	6,673.82	118,518.07
Subtotal governmental activities	132,235.87	(14,731.00)	6,673.82	110,831.05
Business-type activities:				
Capital assets, not being depreciated:				
Land	19,400.00	-	-	19,400.00
Construction in progress	2,706,402.28	278,961.36	2,883,528.11	101,835.53
Capital assets, being depreciated:				
Sewer system	1,037,114.01	2,883,528.11	-	3,920,642.12
Machinery and equipment	23,306.77	-	-	23,306.77
Total capital assets, being depreciated	1,060,420.78	-	-	3,943,948.89
Less accumulated depreciation for:				
Sewer systems	(798,660.00)	(38,582.00)	-	(837,242.00)
Machinery and equipment	(18,694.00)	(920.00)	-	(19,614.00)
Total accumulated depreciation	(817,354.00)	(39,502.00)	-	(856,856.00)
Total capital assets, being depreciated, net	243,066.78	3,122,987.47	2,883,528.11	3,087,092.89
Subtotal business-type activities;	2,968,869.06	3,122,987.47	2,883,528.11	3,208,328.42
Total	3,101,104.93	3,108,256.47	2,890,201.93	3,319,159.47

Depreciation expense was charged as follows:

Governmental activities:	
General government	8,028.00
Public Safety	6,703.00
Total depreciation expense	14,731.00
Business type activities:	
Sewer	39,502.00
Total depreciation expense	39,502.00

**City of Campbellsburg, Kentucky**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances---Budget and Actual**  
**General Fund**

For the year ended June 30, 2009

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	
<b>REVENUES</b>			
Property taxes	\$ 64,600.00	\$ 64,600.00	\$ 76,054.99
Franchise taxes	18,000.00	18,000.00	21,269.22
Insurance taxes	100,000.00	100,000.00	108,274.36
Business licenses	3,600.00	3,600.00	5,809.00
Sanitation receipts	32,000.00	32,000.00	35,497.61
Interest income	7,000.00	7,000.00	5,642.11
Miscellaneous income	-	-	9,457.40
Proceeds from outside sources			
HB 272	500.00	500.00	736.23
Grants HB 413	21,000.00	21,000.00	10,585.85
Police incentive	4,000.00	4,000.00	581.51
Total revenues	<u>250,700.00</u>	<u>250,700.00</u>	<u>273,908.28</u>
<b>EXPENDITURES</b>			
Current:			
General government	143,711.00	143,711.00	121,259.63
Public safety			
Police department	65,688.00	65,688.00	45,629.15
Fire department	30,000.00	30,000.00	10,000.00
Parks and recreation	1,500.00	1,500.00	3,792.78
Sanitation	27,000.00	27,000.00	27,645.04
Streets	7,500.00	7,500.00	1,653.43
Capital outlay	1,000.00	1,000.00	-
Total expenditures	<u>276,399.00</u>	<u>276,399.00</u>	<u>209,980.03</u>
Excess (deficiency) of revenues over expenditures	<u>(25,699.00)</u>	<u>(25,699.00)</u>	<u>63,928.25</u>
<b>OTHER SOURCES (USES)</b>			
Insurance claim proceeds	-	-	84,127.68
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>84,127.68</u>
Excess of revenue and other sources over expenditures and other uses	<u>\$ (25,699.00)</u>	<u>\$ (25,699.00)</u>	<u>\$ 148,055.93</u>

**City of Campbellsburg, Kentucky**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances — Budget and Actual**  
**Special Revenue Fund**  
For the year ended June 30, 2009

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	
<b>REVENUES</b>			
Municipal road aid	\$ 12,000.00	\$ 12,000.00	\$ 12,894.36
LGEA	-	-	1,040.25
Miscellaneous income	-	-	-
Interest income	400.00	400.00	513.20
Total revenues	<u>12,400.00</u>	<u>12,400.00</u>	<u>14,447.81</u>
<b>EXPENDITURES</b>			
Current			
Street department	-	-	4,659.17
Total expenditures	<u>-</u>	<u>-</u>	<u>4,659.17</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 12,400.00</u>	<u>\$ 12,400.00</u>	<u>\$ 9,788.64</u>

# CMR Accounting PSC

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Hon. Jan Fletcher, Mayor  
And Members of the City Council  
Campbellsburg, Kentucky 40011

I have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Campbellsburg, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the City of Campbellsburg, Kentucky's basic financial statements, and have issued my report thereon dated July 12, 2010. I conducted my 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.

### COMPLIANCE

As part of obtaining reasonable assurance about whether City of Campbellsburg, Kentucky's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and, accordingly, I do not express such an opinion. The results of my test disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards*, which are as follows:

1. The City of Campbellsburg, Kentucky violated KRS-224 pertaining to the waste water treatment plant during the fiscal year ended June 30, 1997. The Kentucky Division of Water issued an agreed order for the correction of the violation. The agreed order requires the violations to be corrected in steps. The City is currently following this agreed order.
2. The annual audit was not published as required by the Kentucky Revised Statutes.
3. The Special Revenue budget was exceeded.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered City of Campbellsburg, Kentucky's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial

reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect City of Campbellsburg, Kentucky's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described as follows:

Due to the limited size of the administrative staff, proper segregation is not possible, and internal control is limited.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the management, City Council, the Department of Local Government, and the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

CMR Accounting PSC

CMR Accounting PSC  
Smithfield, Kentucky 40068

July 12, 2010

# CMR Accounting PSC

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## RECD SUPPLEMENTAL LETTER

The Hon. Jan Fletcher, Mayor  
and Members of the City Council  
Campbellsburg, Kentucky 40011

I have audited the general purpose financial statements of the City of Campbellsburg, Kentucky, as of and for the year ended June 30, 2009, and have issued my report thereon dated July 12, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the City of Campbellsburg, Kentucky, for the year ended June 30, 2009, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. After obtaining an understanding of the control environment and the flow of transactions through the accounting system, I did not rely on the system of internal accounting controls because of the size of the administrative staff. My review identified no material weaknesses in the internal accounting control system.

The following information is presented as supplemental information in accordance with Rural Economic and Community Development Service's requirements concerning the City of Campbellsburg, Kentucky, Sewer Fund:

1. The accounting records of the sewer fund appear adequate.
2. Physical control over assets appears adequate under the circumstances.
3. Monthly transfers were made to the depreciation account and short lived asset account. Balances in these accounts at June 30, 2009 are as follows:

### Sewer fund:

Depreciation account	\$ 12,060.23
Short lived assets account	\$ 2,125.00



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4. During the course of the year, the records were maintained on a cash basis. Year end adjustments have been made to adjust for accounts receivable, accounts payable, and accrued expenses.
5. All bank accounts were confirmed directly by the depository and reconciled to the cash balances as shown in these financial statements. All bank accounts were insured by the Federal Deposit Insurance Corporation and additional pledged securities.

6. Insurance at June 30, 2009 is summarized as follows:

General and Public Officials Liability	\$2,000,000
Vehicles	\$2,000,000 Liability/each accident \$2,000,000 Under insured/uninsured/ Each accident
Fidelity Bond City Clerk	\$ 300,000
Workmen's Compensation	Statutory

7. The Sewer Fund is a political subdivision of city government, thus exempt from income taxes.
8. Accounts receivable as of June 30, 2009, may be aged as follows:

Total Accounts Receivable	1-30 Days	31-60 Days	Over 60 Days
\$ 16,995.18	\$16,995.18	\$ -	\$ -
Total Accounts Receivable	Allowance for Uncollectible	Net Accounts Receivable	
\$ 16,995.18	\$ ( - )	\$ 16,995.18	

Respectfully submitted,

*CMR Accounting PSC*

CMR Accounting PSC  
Smithfield, KY 40068  
July 12, 2010