

CITY OF CAMPBELLSBURG, KENTUCKY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Draft

JUNE 30, 2016

CPAs / ADVISORS



CITY OF CAMPBELLSBURG, KENTUCKY

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CITY OF CAMPBELLSBURG, KENTUCKY

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Draft



Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3500 fax 502.992.3509 email blue@blueandco.com
blueandco.com

REPORT OF INDEPENDENT AUDITORS

Mayor and Members of the City Council
City of Campbellsburg
Campbellsburg, Kentucky

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of a Matter – Prior Year Restatement

The financial statements of the City as of June 30, 2015, were audited by other auditors whose opinion dated December 8, 2015, expressed unmodified opinions on those financial statements. As discussed in Note 10 to the financial statements, the City has restated net position as of July 1, 2015, for the correction of errors in deferred outflows, deferred inflows and net pension liability previously reported as of June 30, 2015. The other auditors reported on the 2015 financial statements before the restatement.

As part of our audit of the 2016 financial statements, we audited the adjustments described in Note 10 that were applied to restate the opening balances of the 2016 financial statements as of July 1, 2015. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the City other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 through 9, budgetary comparison information, schedule of city's proportionate share of net pension liability in County Employees Retirement Systems ("CERS"), and the schedule of city's contributions to CERS on pages 40 through 44, 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. The 2015 information presented on pages

43 through 44 was reported on by other auditors, prior to the restatement above, whose report dated December 8, 2015, indicated they applied certain limited procedures to the information and, accordingly did not express an opinion or provide any assurance on the information because the limited procedures did not provide them with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

The supplementary information on page 45 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June XX, 2017 on our consideration of the City'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's internal control over financial reporting and compliance.

Blue & Co., LLC

June XX, 2017

Louisville, Kentucky

Draft

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

This management discussion and analysis is intended to be an easily readable analysis of the City of Campbellsburg (the "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 and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ending June 30, 2016 by \$2,931,130 (net position). Of this amount \$92,145 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$175,936 for the year ended June 30, 2016. The decrease of \$100,303 in the governmental funds can be attributed to an increase in expenses and a decrease in revenue for the year, and also the accrual of net pension liability related to the employee retirement plan for the year.

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 required supplementary information and 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 position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City 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 position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but not used vacation leave). Both the Statement of Net position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis of used in prior reporting models.

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

- Governmental Activities – Most of the City's basic services are reported here, including the police, fire, 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.

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 Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City maintains two 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 and Special Revenue 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 Position 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.

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

STATEMENT OF CASH FLOWS

The Statement of Cash Flows is prepared following the guidance of Governmental Auditing Standards Board ("GASB") Statement 9, as amended by GASB Statement 34. The direct method is used to provide a reconciliation of operating cash flows to operating income.

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.

BUDGETARY HIGHLIGHTS

GASB Statement 34 requires that a budgetary comparison be presented for the general fund and other major governmental funds for which budgets are adopted. The budgetary comparison included:

1. The original budget
2. The final amended budget (if the budget has been amended).
3. The actual inflows and outflows and balance presented on the budgetary basis.

A separate column to report the variances between the final amended budget and the actual amounts is encouraged, but is not required. The government may also report the variances between the original and final budget amounts.

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

JUNE 30, 2016

THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS

A condensed version of the Statement of Net Position at June 30, 2016 and 2015 follows:

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	2015 Business-type Activities
Cash and cash equivalents	\$ 110,905	\$ 113,984	\$ 262,903	\$ 234,850
Accounts receivable	29,826	44,116	16,213	15,166
Prepaid expenses	-0-	18,346	-0-	-0-
Land	13,718	13,718	19,400	19,400
Capital assets	1,097,467	1,155,064	3,217,305	3,317,588
Total assets	<u>1,251,916</u>	<u>1,345,228</u>	<u>3,515,821</u>	<u>3,587,004</u>
Deferred outflows	<u>49,075</u>	<u>16,284</u>	<u>-0-</u>	<u>-0-</u>
Total assets and deferred outflows	<u>\$ 1,300,991</u>	<u>\$ 1,361,512</u>	<u>\$ 3,515,821</u>	<u>\$ 3,587,004</u>
Accounts payable	\$ 8,059	\$ 15,551	\$ -0-	\$ -0-
Accrued expenses	7,823	8,716	21,450	-0-
Long-term outstanding	632,917	637,778	1,040,000	1,057,000
Compensated absences	6,386	4,871	-0-	-0-
Net pension liability	169,047	102,000	-0-	-0-
Total liabilities	<u>824,232</u>	<u>768,916</u>	<u>1,061,450</u>	<u>1,057,000</u>
Deferred inflows	<u>-0-</u>	<u>11,000</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities and deferred inflows	<u>\$ 824,232</u>	<u>\$ 779,916</u>	<u>\$ 1,061,450</u>	<u>\$ 1,057,000</u>
Invested in capital assets, net of debt	478,268	531,004	2,196,705	2,279,988
Restricted	46,783	33,354	117,229	117,100
Unrestricted	(48,292)	17,238	140,437	132,916
Net Position	<u>476,759</u>	<u>581,596</u>	<u>2,454,371</u>	<u>2,530,004</u>
Net Position, Liabilities and Deferred Inflows	<u>\$ 1,300,991</u>	<u>\$ 1,361,512</u>	<u>\$ 3,515,821</u>	<u>\$ 3,587,004</u>

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

A condensed version of the Statement of Activities follows at June 30, 2016 and 2015 follows:

	2016	2015	2016	2015
	Governmental	Governmental	Business-type	Business-type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Revenues				
Program revenues				
Charges for services	\$ 80,041	\$ 44,517	\$ 67,451	\$ 66,511
Grants	25,117	5,725	-0-	-0-
General revenues				
Property taxes	78,370	87,770	-0-	-0-
Insurance premium tax	117,162	128,202	-0-	-0-
Franchise taxes	36,327	26,455	-0-	-0-
Other taxes	460	2,367	-0-	-0-
Other revenue	2,265	35,425	-0-	-0-
Gain (loss) on sale of assets	8,300	-0-	-0-	-0-
Interest income	68	10	450	514
Total revenues	<u>348,110</u>	<u>330,471</u>	<u>67,901</u>	<u>67,025</u>
Expenses				
General government	296,489	287,006	-0-	-0-
Police	23,056	22,794	-0-	-0-
Fire	27,925	32,925	-0-	-0-
Streets	7,640	10,526	-0-	-0-
Parks and recreation	17,528	8,888	-0-	-0-
Community center	4,802			
Sanitation	43,464	38,187	-0-	-0-
Operation	-0-	-0-	100,283	120,730
Interest	27,509	27,518	43,251	43,931
Total expenses	<u>448,413</u>	<u>427,844</u>	<u>143,534</u>	<u>164,661</u>
Change in net position	(100,303)	(97,373)	(75,633)	(97,636)
Beginning net position	581,596	783,969	2,530,004	2,627,640
Prior period adjustment	(4,534)	(105,000)	-0-	-0-
Ending net position	<u>\$ 476,759</u>	<u>\$ 581,596</u>	<u>\$ 2,454,371</u>	<u>\$ 2,530,004</u>

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

CAPITAL ASSETS

At June 30, 2016, the City had \$2,674,973 invested in capital assets, net of related debt consisting primarily of the sewer system, the Carrollton force main project and the Community Center that was constructed. The following is the capital assets schedule for the City:

	Governmental Activities	Business-type Activities	Total
Land	\$ 13,718	\$ 19,400	\$ 33,118
Sewer System	-0-	4,867,100	4,867,100
Building and improvements	1,163,232	-0-	1,163,232
Machinery and equipment	315,242	23,307	338,549
Infrastructure	181,042	-0-	181,042
Subtotal	<u>1,673,234</u>	<u>4,909,807</u>	<u>6,583,041</u>
Accumulated depreciation	(562,049)	(1,673,102)	(2,235,151)
Capital assets, net	<u>\$ 1,111,185</u>	<u>\$ 3,236,705</u>	<u>\$ 4,347,890</u>

DEBT OUTSTANDING

At the year-end debt consisted of \$1,040,000 in outstanding bonds payable for the construction of the Carrollton force main project. In addition there was also debt outstanding consisting of \$632,917 for the construction of the city's community center.

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 POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 64,122	\$ 145,674	\$ 209,796
Restricted cash	46,783	117,229	164,012
Accounts receivable (net)	29,826	16,213	46,039
Total current assets	<u>140,731</u>	<u>279,116</u>	<u>419,847</u>
Noncurrent assets:			
Capital assets:			
Land	13,718	19,400	33,118
Other capital assets	1,659,516	4,890,407	6,549,923
Less: Accumulated depreciation	(562,049)	(1,673,102)	(2,235,151)
Total capital assets	<u>1,111,185</u>	<u>3,236,705</u>	<u>4,347,890</u>
Deferred outflows of resources	<u>49,075</u>	<u>-0-</u>	<u>49,075</u>
Total assets and deferred outflows	<u>\$ 1,300,991</u>	<u>\$ 3,515,821</u>	<u>\$ 4,816,812</u>

Draft

See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 8,059	\$ -0-	\$ 8,059
Accrued liabilities	7,823	21,450	29,273
Compensated absences	5,338	-0-	5,338
Current portion of bond payable	5,000	17,000	22,000
Total current liabilities	<u>26,220</u>	<u>38,450</u>	<u>64,670</u>
Noncurrent liabilities:			
Compensated absences	1,048	-0-	1,048
Bond payable	627,917	1,023,000	1,650,917
Net pension liability	169,047	-0-	169,047
Total noncurrent liabilities	<u>798,012</u>	<u>1,023,000</u>	<u>1,821,012</u>
Total liabilities	<u>824,232</u>	<u>1,061,450</u>	<u>1,885,682</u>
Deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities and deferred inflows	<u>824,232</u>	<u>1,061,450</u>	<u>1,885,682</u>
Net position (deficit)			
Invested in capital assets, net of related debt	478,268	2,196,705	2,674,973
Restricted for:			
Streets	46,783	-0-	46,783
Sewer debt	-0-	117,229	117,229
Unrestricted	<u>(48,292)</u>	<u>140,437</u>	<u>92,145</u>
Total net position	<u>476,759</u>	<u>2,454,371</u>	<u>2,931,130</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,300,991</u>	<u>\$ 3,515,821</u>	<u>\$ 4,816,812</u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	Governmental Fund Types		Totals
	General	Special Revenue	
Assets			
Cash and cash equivalents	\$ 64,122	\$ -0-	\$ 64,122
Restricted cash	-0-	46,783	46,783
Accounts receivable, net	29,826	-0-	29,826
Total assets	\$ 93,948	\$ 46,783	\$ 140,731
Liabilities and fund balance			
Liabilities			
Accounts payable	\$ 8,059	\$ -0-	\$ 8,059
Accrued liabilities	7,823	-0-	7,823
Total liabilities	15,882	-0-	15,882
Fund balance			
Restricted for:			
Street maintenance	-0-	46,783	46,783
Unassigned	78,066	-0-	78,066
Total fund balance	78,066	46,783	124,849
Total liabilities and fund balance	\$ 93,948	\$ 46,783	\$ 140,731

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See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016

Fund balances - total governmental funds	\$	124,849
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 funds.		1,111,185
Deferred outflows of resources are expensed in the current period, and therefore not reported in governmental funds.		49,075
Long-term liabilities, including compensated absences, bonds payable, net pension liability, and deferred inflows, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	\$	(6,386)
Net pension liability		(169,047)
Deferred inflows		-0-
Bonds payable		(632,917)
		(808,350)
Net position of governmental activities	\$	476,759

Draft

CITY OF CAMPBELLSBURG, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	GOVERNMENTAL FUND TYPES		TOTALS
	GENERAL	SPECIAL REVENUE	
Revenue			
Property taxes	\$ 78,370	\$ -0-	\$ 78,370
Insurance premium tax	117,162	-0-	117,162
Franchise taxes	36,327	-0-	36,327
Bank deposit tax	460	-0-	460
Business licenses	6,475	-0-	6,475
Sanitation receipts	45,098	-0-	45,098
Interest income	48	20	68
Community center funds	28,468	-0-	28,468
Parks and recreation	-0-	-0-	-0-
Miscellaneous	2,265	-0-	2,265
Intergovernment:			
HB 272	717	-0-	717
Grants HB 413	7,064	-0-	7,064
Municipal road aid	-0-	16,185	16,185
Severance tax - LGEA	-0-	1,151	1,151
Police incentive	-0-	-0-	-0-
Total revenue	322,454	17,356	339,810
Expenditures			
General government	243,965	-0-	243,965
Public safety:			
Police department	21,884	-0-	21,884
Fire department	15,000	-0-	15,000
Street department	-0-	3,927	3,927
Parks and recreation	10,028	-0-	10,028
Community center	4,802	-0-	4,802
Sanitation	43,464	-0-	43,464
Debt service:			
Principal	4,861	-0-	4,861
Interest	27,509	-0-	27,509
Capital outlay	-0-	-0-	-0-
Total expenditures	371,513	3,927	375,440
Other Sources (Uses)			
Sale proceeds	8,300	-0-	8,300
Total Other Sources (Uses)	8,300	-0-	8,300
Net change in fund balance	(40,759)	13,429	(27,330)
Fund balance, beginning	118,825	33,354	152,179
Fund balance, ending	\$ 78,066	\$ 46,783	\$ 124,849

See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ (27,330)

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.

Capital outlay	\$	-0-	
Depreciation expense		(57,597)	
			(57,597)

Pension income (expense) related to long-term net pension liabilities that is not
included in the governmental funds. (18,722)

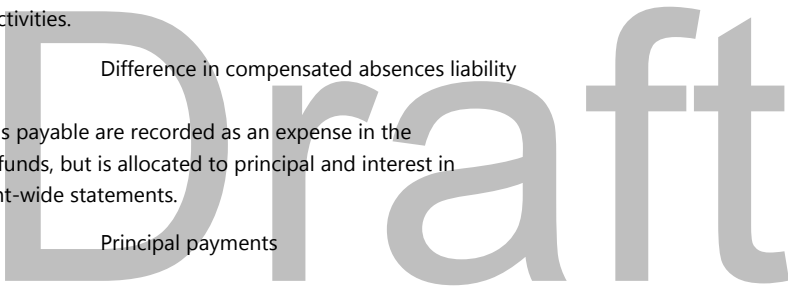
The decrease in compensated absences liability does not increase the current
financial resources but is recorded as a decrease to expenses in the
statement of activities.

Difference in compensated absences liability		(1,515)
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Payments on bonds payable are recorded as an expense in the
governmental funds, but is allocated to principal and interest in
the government-wide statements.

Principal payments		4,861

Change in net position of governmental funds in Statement of Activities \$ (100,303)



CITY OF CAMPBELLSBURG, KENTUCKY

STATEMENT OF NET POSITION – SEWER FUND
JUNE 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$	145,674
Restricted cash		117,229
Accounts receivable, net		16,213
Total current assets		<u>279,116</u>

Noncurrent assets:

Capital assets

Land		19,400
Other capital assets, net of depreciation		3,217,305
Total noncurrent assets		<u>3,236,705</u>

Total assets	\$	<u><u>3,515,821</u></u>
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Liabilities

Current liabilities:

Interest payable	\$	21,450
Current portion of bonds payable		17,000
Total current liabilities		<u>38,450</u>

Noncurrent liabilities:

Bonds payable		1,023,000
Total noncurrent liabilities		<u>1,023,000</u>

Total liabilities		1,061,450
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Net position

Invested in capital assets, net of related debt		2,196,705
Restricted		117,229
Unrestricted		140,437
Total net position		<u>2,454,371</u>

Total liabilities and net position	\$	<u><u>3,515,821</u></u>
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CITY OF CAMPBELLSBURG, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues:		
Charges for services	\$	67,451
Total operating revenues		<u>67,451</u>
Operating expenses:		
Depreciation		<u>100,283</u>
Total operating expenses		<u>100,283</u>
Operating loss		(32,832)
Non-operating revenues (expenses):		
Interest income		450
Interest expense		<u>(43,251)</u>
Net non-operating revenues (expenses)		<u>(42,801)</u>
Change in net position		(75,633)
Total net position at beginning of year		<u>2,530,004</u>
Total net position at end of year	\$	<u><u>2,454,371</u></u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

STATEMENT OF CASH FLOWS – SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows from Operating activities

Cash received from customers	\$ 66,404
Net cash flows from operating activities	<u>66,404</u>

Cash Flows from Investing Activities

Interest on investments	450
Bond principal payment	(17,000)
Interest expense	(21,801)
Net cash flows from investing activities	<u>(38,351)</u>

Net change in cash and cash equivalents 28,053

Cash and cash equivalents - beginning of the year 234,850

Cash and cash equivalents - end of the year \$ 262,903

Shown in the financial statements as:

Cash and cash equivalents	145,674
Restricted cash	117,229
	<u>\$ 262,903</u>

Reconciliation of operating loss to net cash used
by operating activities

Operating loss	\$ (32,832)
Adjustments	
Depreciation	100,283
Net changes in assets and liabilities	
Accounts receivable	(1,047)
Net cash provided by operating activities	<u><u>\$ 66,404</u></u>

See accompanying notes to financial statements.

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The City of Campbellsburg, Kentucky (the "City") and its component unit is incorporated and operates under a Mayor-Council form of government and provides traditional municipal services.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

Reporting Entity

The City's citizens elect the mayor and six council members. The accompanying financial statements present the City's primary government and its component unit 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 primary government. The board of this blended component unit is the same as the primary government. This Corporation is blended into the City's primary government although retaining legal identity.

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 position and the statement of activities and report information of all 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 position 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 are intended to recover all or a significant portion of their costs through

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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. The City allocates certain indirect costs to be included in the program expense reported for individual functions and activities in the government-wide statement of activities.

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 the 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 fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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 tax, 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

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

qualifying expenditures have been incurred and all other eligibility requirements have been met.

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

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 funds 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:

- *General Fund* – Used as 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.
- *Road Fund* – Used as the City's special revenue fund for municipal road aid funds from the state that are used for repairs and maintenance to roads and capital improvements.

The City reports the following major proprietary fund:

- *Sewer Fund* – Used to account for the activities of providing sewer service to the citizens of the City. The services are provided and billed by Carrolton Utilities.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and the net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and the accrual basis of accounting. In addition, capital assets and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

modified accrual basis of accounting for governmental fund financial statements to the accrual basis of accounting for the government-wide statements. Capital outlay is replaced with depreciation expense.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense/expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivables

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year-end. Taxes receivable are the amount the City expects to collect within 60 days of year-end per the City's policy.

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.

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

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

Interfund Transactions

During the course of operations, transactions may occur between funds within the City that may result in transfers being recorded. Interfund receivables and payables and interfund transfers are eliminated in the statement of net position.

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 the 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.

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.

Equity Classifications

Government-Wide Financial Statements:

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

- a. Net investment in capital assets – Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
 - b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
-

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

- c. Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Council’s policy to use restricted resources first, and then unrestricted resources as they are needed. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund classifications can be used.

As of June 30, 2016, the City’s road funds are restricted by enabling legislation.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City Council. Assigned fund balances is a limitation imposed by a designee of the Council members. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one on the above four categories. Negative unassigned fund balance in governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

The City generally segregates restricted, committed, and assigned resources by account. When resources meeting more than one of those spendable classifications are commingled in an account in the City’s accounting system, the assumed order of spending is restricted first, committed second, and finally assigned. Once restricted resources have been exhausted, unrestricted resources will then be spent on the specific purpose.

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.

Expenses/Expenditures

Expenses are classified by function/program in the government-wide financial statements. Expenditures are classified by function in the governmental fund financial statements. Indirect expenses are not allocated to functions in the statement of activities

Pensions

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pension expense, information about the fiduciary net position of County Employees' Retirement Systems ("CERS") and addition to/deduction from CERS's fiduciary net position have been determined on the same basis as they were reported by CERS.

2. CASH AND EQUIVALENTS AND COMPONENTS OF RESTRICTED ASSETS

At year-end, the carrying amount of the City's deposits (checking, savings and certificate of deposit accounts) was \$373,808 (\$209,796 as cash and cash equivalents, and \$164,012 as restricted cash). All deposits were covered by federal depository insurance or by collateral held in the City's name.

Custodial Credit Risk

Custodial credit risk for cash is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits or collateral securities that are in the possession of the financial institution. The City's policy dictates that all cash maintained in any financial institution be collateralized and the collateral held in the name of the City. The City was fully collateralized and all cash equivalents were held in the City's name as of June 30, 2016. The bank balances were secured by the \$250,000 federal depository insurance and pledged securities as collateral, but held in United Citizens Bank and Trust Company's name. All cash accounts were secured for fiscal year June 30, 2016. Cash not needed for current expenditures are invested in interest bearing accounts and certificates of deposit.

Restricted cash at June 30, 2016, consists of the following:

Governmental activities

Municipal road fund account	\$	46,783
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Business-type activities

Force main project account	\$	46,408
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Funded depreciation account		63,633
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Short lived assets account		7,188
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Total business-type activities	\$	117,229
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Total restricted cash	\$	164,012
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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. The Local Government Economic Assistance and the Coal and Mineral Severance Tax received from the state are both accounted for in the Special

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Revenue Fund. These funds were established as required by revenue bond ordinances, Kentucky Bond Corporation, and the interlocal agreement. At June 30, 2016, the City is in compliance with the provisions as set forth by the ordinances and agreement.

3. SEWER SYSTEM INTERLOCAL AGREEMENT

The City signed an interlocal cooperation agreement on September 27, 2004 providing for a regional sewer system with the City of Carrollton providing sewer service to the City. The City, under an agreed order with the Department of Natural Resources, has connected to a regional wastewater treatment plant with the Carrollton Regional Wastewater Treatment Plant.

4. CAPITAL ASSETS AND DEPRECIATION

The City uses the straight-line method for property, plant and equipment based on the following estimated useful life by major class of depreciable assets:

Assets	Years
Buildings	10 to 40
Improvements other than buildings	10 to 40
Infrastructure	15 to 40
Utility systems	20 to 40
Machinery and equipment	5 to 15

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

A summary of changes in general fixed assets follows:

PRIMARY GOVERNMENT	Balance			Balance
	June 30, 2015	Additions	Deductions	June 30, 2016
Governmental activities:				
Nondepreciable assets:				
Land	\$ 13,718	\$ -0-	\$ -0-	\$ 13,718
Total nondepreciable assets	<u>13,718</u>	<u>-0-</u>	<u>-0-</u>	<u>13,718</u>
Depreciable assets:				
Buildings and improvements	\$ 1,163,232	\$ -0-	\$ -0-	\$ 1,163,232
Machinery and equipment	315,242	-0-	-0-	315,242
Infrastructure	181,042	-0-	-0-	181,042
Total depreciable assets	<u>1,659,516</u>	<u>-0-</u>	<u>-0-</u>	<u>1,659,516</u>
Total capital assets	<u>\$ 1,673,234</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,673,234</u>
Accumulated depreciation:				
Buildings and improvements	\$ (179,470)	\$ (35,318)	\$ -0-	\$ (214,788)
Machinery and equipment	(242,787)	(14,655)	-0-	(257,442)
Infrastructure	(82,195)	(7,624)	-0-	(89,819)
Total accumulated depreciation	<u>(504,452)</u>	<u>(57,597)</u>	<u>-0-</u>	<u>(562,049)</u>
Total depreciable assets, net	<u>1,155,064</u>	<u>(57,597)</u>	<u>-0-</u>	<u>1,097,467</u>
Governmental activities capital assets, net	<u>\$ 1,168,782</u>	<u>\$ (57,597)</u>	<u>\$ -0-</u>	<u>\$ 1,111,185</u>
Business-type activities:				
Nondepreciable assets:				
Land	\$ 19,400	\$ -0-	\$ -0-	\$ 19,400
Total nondepreciable assets	<u>19,400</u>	<u>-0-</u>	<u>-0-</u>	<u>19,400</u>
Depreciable assets:				
Sewer systems	4,867,101	-0-	-0-	4,867,101
Machinery and equipment	23,307	-0-	-0-	23,307
Total depreciable assets	<u>4,890,408</u>	<u>-0-</u>	<u>-0-</u>	<u>4,890,408</u>
Total capital assets	<u>\$ 4,909,808</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,909,808</u>
Accumulated depreciation:				
Sewer systems	\$ (1,549,588)	\$ (100,208)	\$ -0-	\$ (1,649,796)
Machinery and equipment	(23,232)	(75)	-0-	(23,307)
Total accumulated depreciation	<u>(1,572,820)</u>	<u>(100,283)</u>	<u>-0-</u>	<u>(1,673,103)</u>
Total depreciable assets, net	<u>3,317,588</u>	<u>(100,283)</u>	<u>-0-</u>	<u>3,217,305</u>
Business-type activities capital assets, net	<u>\$ 3,336,988</u>	<u>\$ (100,283)</u>	<u>\$ -0-</u>	<u>\$ 3,236,705</u>
Total Capital assets	<u>\$ 4,505,770</u>	<u>\$ (157,880)</u>	<u>\$ -0-</u>	<u>\$ 4,347,890</u>

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Depreciation expense is charged to functions as follows:

<u>Governmental activities</u>	
General government	\$ 33,030
Police	429
Fire	12,925
Streets	3,713
Parks and recreation	7,500
	<u>\$ 57,597</u>
 <u>Business-type activities</u>	
Sewer	100,283
	<u>\$ 165,380</u>

5. COMPENSATED ABSENCES

Accrued compensated absences for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Earned	Used	Balance June 30, 2016	Amounts Due Within One Year
General government	\$ 4,871	1,772	1,000	\$ 5,643	246
Police	-0-	819	76	743	802
	<u>\$ 4,871</u>	<u>\$ 2,591</u>	<u>\$ 1,076</u>	<u>\$ 6,386</u>	<u>\$ 1,048</u>

It is the policy of the City to record the cost of sick leave when paid not earned. Sick pay earned but not accrued at June 30, 2016, totals approximately \$6,509.

6. LONG-TERM DEBT

On June 15, 2007, the City issued revenue bonds in the amount of \$1,155,000 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. The bonds mature annually from January 1, 2009 to January 1, 2046 in varying amounts from \$14,000 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 revenue derived from the operation of the sewer system. A depreciation fund amounting to \$63,633 is also maintained. Also, 1/6 of the six month interest payment and 1/12 of the annual principal payment is to be deposited in a sinking fund. A summary of the bond principal and interest payments to maturity are as follows:

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For the year ending June 30,	Interest	Principal	Outstanding
			\$ 1,040,000
2017	42,900	17,000	1,023,000
2018	42,199	18,000	1,005,000
2019	41,456	19,000	986,000
2020	40,673	20,000	966,000
2021	39,848	21,000	945,000
	<u>207,076</u>	<u>95,000</u>	
2022-2026	185,419	120,000	825,000
2027-2031	158,606	146,000	679,000
2032-2036	125,730	181,000	498,000
2037-2041	84,975	225,000	273,000
2042-2046	34,402	273,000	\$ -0-
	<u>589,132</u>	<u>945,000</u>	
Totals	<u>\$ 796,208</u>	<u>\$ 1,040,000</u>	

For the purpose of financing the acquisition and construction of the Campbellsburg Station which is a multi-purpose facility including a custom playground, community center and enhanced parking area for the downtown core, the city has issued bonds on March 29, 2012 in the amount of \$655,000. Principal and interest at approximately 4.099% per annum is payable on a monthly basis. A general obligation pledge to assess sufficient taxes to comply with the obligation to pay lease payments on the lease is included. A summary of bond principal and interest payments to maturity is as follows:

For the year ending June 30,	Interest	Principal	Outstanding
			\$ 632,917
2017	27,207	5,000	627,917
2018	27,045	5,000	622,917
2019	26,882	5,000	617,917
2020	26,720	5,000	612,917
2021	26,557	5,000	607,917
	<u>134,411</u>	<u>25,000</u>	
2022-2026	122,980	137,500	470,417
2027-2031	88,771	199,166	271,251
2032-2036	42,553	239,168	32,083
2037	1,706	32,083	\$ -0-
	<u>256,010</u>	<u>607,917</u>	
Totals	<u>\$ 390,421</u>	<u>\$ 632,917</u>	

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The summary of long-term debt for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond payable - Sewer	\$ 1,057,000	\$ -0-	\$ 17,000	\$ 1,040,000	\$ 17,000
Bond payable - General	637,778	-0-	4,861	632,917	5,000
Totals	<u>\$ 1,694,778</u>	<u>\$ -0-</u>	<u>\$ 21,861</u>	<u>\$ 1,672,917</u>	<u>\$ 22,000</u>

7. RETIREMENT PLAN

General Information about the Pension Plan

Plan description. Employees of the City are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Benefits provided: Nonhazardous

	Tier 1 Nonhazardous Participation beginning prior to 9/1/2008	Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Nonhazardous Participation beginning on or after 1/1/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceeding retirement; Each year must contain 12 months	No final compensation factor
Benefit Factor:	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment ("COLA"):	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 1 month of service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military)	No reduced retirement benefit

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employers contributed 12.42% as set by KRS of each Nonhazardous employee's creditable compensation, and 20.26% for each Hazardous employee. For the year ended June 30, 2016, employer contributions for the City were \$91,100. By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

- (a) *Discount rate*: The discount rate used to measure the total pension liability was 7.50%
 - (b) *Projected cash flows*: The projection of cash flows used to determine the discount rate assumed that local employees would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
 - (c) *Long-term rate of return*: The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions are intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
 - (d) *Municipal bond rate*: The discount rate determination does not use a municipal bond rate.
 - (e) *Periods of projected benefit payments*: Projected future benefit payments for all current plan members were projected through 2117.
 - (f) *Assumed Asset Allocation*: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:
-

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Nonhazardous		
Difference between expected and actual experience	\$ 1,405	\$ -0-
Change of assumptions	17,047	-0-
Net difference between projected and actual earnings on investments	1,515	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,942	-0-
Contributions subsequent to the measurement date	<u>9,166</u>	<u>-0-</u>
Total	<u>\$ 49,075</u>	<u>\$ -0-</u>

The amount shown below for "Contributions subsequent to the measurement date" will be recognized as a reduction (increase) to net pension liability in the following measurement period.

The \$9,166 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Inflows of Resources

Original Deferral Year	Original Deferral Amount	<u>06/30/17</u>	<u>06/30/18</u>	<u>06/30/19</u>	<u>06/30/20</u>
2014	\$ 11,000	\$ (3,667)	\$ (3,667)	\$ (3,666)	\$ -0-
2015	<u>(11,000)</u>	<u>3,667</u>	<u>3,667</u>	<u>3,666</u>	<u>-0-</u>
	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Deferred Outflows of Resources

Original Deferral Year	Original Deferral Amount	<u>06/30/17</u>	<u>06/30/18</u>	<u>06/30/19</u>	<u>06/30/20</u>
2015	<u>\$ 39,909</u>	<u>\$ 9,977</u>	<u>\$ 9,977</u>	<u>\$ 9,977</u>	<u>\$ 9,978</u>

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In the tables shown above, positive amounts will increase pension expense and negative amounts will decrease pension expense.

8. POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS. Covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the CERS Insurance Fund. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

	Statutorily Required Contribution Rate (As a Percentage of Covered Payroll)	Nonhazardous		Percentage of Annual OPEB Cost Contributed
		Annual OPEB Cost	Annual OPEB Cost Contributed	
June 30,				
2016	4.64%	\$ 3,424	\$ 3,424	100%
2015	4.92%	\$ 4,534	\$ 4,534	100%
2014	5.15%	\$ 3,732	\$ 3,732	100%

9. RISK MANAGEMENT

The City of Campbellsburg is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently carries property and general liability insurance through the Selective Insurance Company. Workman's Compensation insurance is carried through the Kentucky League of Cities. The City reports all of its risk management activities in its General Fund.

10. RESTATEMENT OF BEGINNING NET POSITION RELATED TO FISCAL YEAR ENDING JUNE 30, 2015

Beginning net position for the government-wide statement of activities as of July 1, 2015 has been restated to show deferred outflows contributions subsequent to the measurement date for only the pension portion of the employer contributions to CERS and not the insurance portion.

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	Government-Wide Statements	
	<u>Governmental Activities</u>	
Net position - July 1, 2015, prior to restatement	\$	581,596
Increase (decrease) in deferred outflows		<u>(4,534)</u>
Increase (decrease) in net position		<u>(4,534)</u>
Net position - July 1, 2015, as restated	\$	<u>577,062</u>

The impact of the above changes on the change in net position previously reported for the year ended June 30, 2015, is as follows:

	Government-Wide Statements	
	<u>Governmental Activities</u>	
Change in net position - as previously reported	\$	(97,373)
Change in pension expense		
Increase (decrease) in net position		<u>(4,534)</u>
Change in net position - as corrected	\$	<u>(101,907)</u>

11. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. This Statement addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures

CITY OF CAMPBELLSBURG, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Draft

REQUIRED SUPPLEMENTARY INFORMATION

Draft

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance - Over (Under)
	Original	Final		
Revenue				
Property taxes	\$ 80,867	\$ 80,867	\$ 78,370	\$ (2,497)
Insurance premium tax	128,328	128,328	117,162	(11,166)
Franchise taxes	34,832	34,832	36,327	1,495
Bank deposit tax	975	975	460	(515)
Business licenses	8,750	8,750	6,475	(2,275)
Sanitation receipts	38,537	38,537	45,098	6,561
Interest income	20	20	48	28
Community center funds	29,620	29,620	28,468	(1,152)
Miscellaneous	1,337	1,337	2,265	928
Intergovernment:				
HB 272	718	718	717	(1)
Grants HB 413	5,924	5,924	7,064	1,140
Total revenue	329,908	329,908	322,454	(7,454)
Expenditures				
General government	241,423	241,423	243,965	2,542
Public safety:				-0-
Police department	22,977	22,977	21,884	(1,093)
Fire department	20,000	20,000	15,000	(5,000)
Parks and recreation	13,400	13,400	10,028	(3,372)
Community center	53,697	53,697	4,802	(48,895)
Sanitation	84,238	84,238	43,464	(40,774)
Debt service:				
Principal	4,861	4,861	4,861	-0-
Interest	27,509	27,509	27,509	-0-
Capital outlay	19,000	19,000	-0-	(19,000)
Total expenditures	487,105	487,105	371,513	(115,592)
Other Sources (Uses)				
Sale proceeds	-0-	-0-	8,300	8,300
Total other sources (uses)	-0-	-0-	8,300	8,300
Net change in fund balance	(157,197)	(157,197)	(40,759)	116,438
Fund balance, July 1	118,825	118,825	118,825	-0-
Fund balance, June 30	\$ (38,372)	\$ (38,372)	\$ 78,066	\$ 116,438

See report of independent auditors and accompanying note to the budgetary information.

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
ROAD FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance - Over (Under)
	Original	Final		
Revenue				
Interest income	\$ -0-	\$ -0-	\$ 20	\$ 20
Intergovernment:				
Municipal road aid	20,284	20,284	16,185	(4,099)
Severance tax - LGEA	1,239	1,239	1,151	(88)
Total revenue	21,523	21,523	17,356	(4,167)
Expenditures				
Street department	15,000	15,000	3,927	(11,073)
Total expenditures	15,000	15,000	3,927	(11,073)
Net change in net position	6,523	6,523	13,429	6,906
Net position, July 1	33,354	33,354	33,354	-0-
Net position, June 30	\$ 39,877	\$ 39,877	\$ 46,783	\$ 6,906

See report of independent auditors and accompanying note to the budgetary information.

CITY OF CAMPBELLSBURG, KENTUCKY

NOTE TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GENERAL FUND AND ROAD FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

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 and the Special Revenue 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 accounting principles generally accepted in the United States of America (GAAP) and appropriations lapse at the end of each fiscal year. The budget was not amended during the year.

Draft

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IN COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	<u>Nonhazardous</u>	<u>Nonhazardous</u>
City's proportion of the net pension liability	0.003932%	0.003159%
City's proportionate share of the net pension liability	\$ 169,047	\$ 102,000
City's covered employee payroll	\$ 92,157	\$ 99,622
City's proportion of the net position liability as a percentage of its covered employee payroll	183.43%	102.39%
Total Pension Plan's Fiduciary Net Position as a percentage of Total Pension Liability	59.97%	66.80%

Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF CITY'S CONTRIBUTIONS TO THE COUNTY EMPLOYEES
RETIREMENT SYSTEM (CERS)
JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	<u>Nonhazardous</u>	<u>Nonhazardous</u>
Statutorily required contribution for pension	\$ 9,166	\$ 11,750
City's contributions in relation to the statutorily required contribution	<u>(9,166)</u>	<u>(11,750)</u>
Annual contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
City's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%
City's covered employee payroll	\$ 73,800	\$ 92,157
Contributions as a percentage of its covered employee payroll	12.42%	12.75%

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

OTHER SUPPLEMENTARY INFORMATION

Draft

CITY OF CAMPBELLSBURG, KENTUCKY

MAYOR, CITY COUNCIL MEMBERS AND CITY OFFICIALS
JUNE 30, 2016

Mayor

Term Expires

Rex Morgan

December 31, 2018

Council Members

Lorraine Hawkins

December 31, 2016

Shelley Noe

December 31, 2016

Jan Fletcher

December 31, 2016

Angela Stanley

December 31, 2016

Punkin Burk

December 31, 2016

David Gray

December 31, 2016

City Officials

Susie Tipton

City Clerk/Treasurer

Draft



Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
 main 502.992.3500 fax 502.992.3509 email blue@blueandco.com
 blueandco.com

**REPORT OF INDEPENDENT AUDITORS 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**

To the Mayor and City Council
 City of Campbellsburg, Kentucky

Report on the Financial Statements

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 responses that we consider to be material weaknesses as items 2016-2 and 2016-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-1.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Louisville, Kentucky

June XX, 2017

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Finding: 2016-1

Condition: The City of Campbellsburg, Kentucky (the "City") is required to have an audit completed by February 1 of the year following their year-end.

Criteria: Kentucky Revised Statutes require submission of an audited financial statement for cities for their fiscal year ended by February 1.

Cause: The City engaged an independent accountant in a timely manner to provide an audit of their financial statements. Due to this being a first year engagement, the auditor was unable to complete the audit engagement by the February 1st deadline.

Effect: The City was unable to submit an audited financial statement by the February 1 due date.

Recommendation: The auditor will take necessary steps to complete, review and issue their audited financial statements in a more timely manner to meet the February 1st deadline as required by state statute.

Response: Management recognizes that this was a first year engagement for their new accounting firm and in future years, their independent accountant will meet the required deadline per state statute.

Finding: 2016-2

Condition: During 2015, the amount reported as deferred outflow of resources – contributions subsequent to the measurement date were included in pension expense and included a portion of payments to the pension plan that related to retirement insurance payments.

Criteria: Under accounting principles generally accepted in the United States of America, contributions to the pension plan after the measurement date should offset the pension liability in the following year and should only include the amount contributed to the pension plan related to pension payments.

Cause: The nature and complexity of the transaction involved.

Effect: As a result of the above conditions, deferred outflows was overstated and pension expense was understated during 2015.

CITY OF CAMPBELLSBURG, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Recommendation: We recommend the City review its year-end procedures for recording net pension liability and pension expense.

Response: We accept the auditor’s recommendation. Due to the complexity of the new pension calculations and year-end adjustments under the new accounting standards, we consulted with the predecessor auditor during the 2015 audit and the new external auditor during the 2016 audit for assistance with the year-end adjustments. We will work with the auditor in future years to ensure the amount contributed to the retirement system only includes the pension payment and to ensure the payments are offset against the net pension liability in the correct year.

Finding: 2016-3

Condition: We are required to give consideration to the City’s ability to prepare financial statements and related not disclosures, as well as the oversight of the financial reporting process by those charged with governance.

Criteria: Such preparation would require the City to maintain appropriate technical knowledge to prepare the financial statements with all related note disclosures.

Cause: The nature and complexity of the transaction involved with preparing financial statements and related note disclosures.

Effect: As a result of the above conditions, the City does not have controls in place that would assure the preparation of the financial statements and related note disclosures in accordance with modified accrual or accrual basis of accounting.

Recommendation: As with many small cities, the City engages the auditor to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the City for approval. While this practice is common and practical, we must inform those charged with governance of this finding.

Response: We accept the auditor’s recommendation. Due to the complexity of the financial reporting process and full governmental disclosures, the City will continue to rely on the auditor in future years to ensure the financial statements and related disclosures are appropriate.

CITY OF CAMPBELLSBURG, KENTUCKY

MANAGEMENT CERTIFICATION OF COMPLIANCE

JUNE 30, 2016

LOCAL GOVERNMENT ASSISTANCE

CITY OF CAMPBELLSBURG, KENTUCKY

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

Rex Morgan, Mayor

Susie Tipton, City Clerk/Treasurer

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