

**CITY OF CAMPTON, KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2016**

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Commissioners  
City of Campton, Kentucky

### **Report on the Financial Statements**

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

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

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

### ***Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

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

Honorable Mayor and City Commissioners  
City of Campton, Kentucky

***Other Matters***

*Required Supplementary Information*

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

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Campton, Kentucky's basic financial statements. The schedule of expenses – proprietary fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenses – proprietary fund 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 it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the City of Campton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Campton, Kentucky's internal control over financial reporting and compliance.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

December 13, 2016

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 561,665	\$ 584,472	\$ 1,146,137
Receivables:			
Customers		121,590	121,590
Unbilled		39,559	39,559
Grants		6,600	6,600
Prepaid Surety Bond Payment		2,538	2,538
Prepaid Insurance		23,785	23,785
Due to/from Other Funds	41,203	(41,203)	0
Restricted Cash and Cash Equivalents		551,433	551,433
<b>Total Current Assets</b>	602,868	1,288,774	1,891,642
<b>Noncurrent Assets:</b>			
Capital Assets			
Construction in Progress		23,030	23,030
Land	144,062	347,101	491,163
Land Improvements - Net of Accum. Depr.	84,207		84,207
Buildings and Improvements - Net of Accum. Depr.	61,930		61,930
Vehicles and Equipment - Net of Accum. Depr.	9,505	141,815	151,320
Infrastructure - Net of Accum. Depr.	150,849	21,044,204	21,195,053
<b>Total Noncurrent Assets</b>	450,553	21,556,150	22,006,703
<b>Total Assets</b>	1,053,421	22,844,924	23,898,345
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
		162,566	162,566

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2016

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accrued Wages		9,385	9,385
Accrued Payroll Taxes		1,816	1,816
Retirement Payable		6,844	6,844
Accounts Payable - Trade		25,185	25,185
Accrued Interest		39,547	39,547
Sales Tax Payable		991	991
Utility Tax Payable		2,257	2,257
Customer Deposits		125,456	125,456
Current Portion of Bonds and Loans Payable	8,072	126,242	134,314
<b>Total Current Liabilities</b>	<b>8,072</b>	<b>337,723</b>	<b>345,795</b>
<b>Noncurrent Liabilities:</b>			
Compensated Absences		15,681	15,681
Net Pension Liabilities		643,541	643,541
Bonds and Loans Payable	32,593	3,341,083	3,373,676
<b>Total Noncurrent Liabilities</b>	<b>32,593</b>	<b>4,000,305</b>	<b>4,032,898</b>
<b>Total Liabilities</b>	<b>40,665</b>	<b>4,338,028</b>	<b>4,378,693</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		<b>0</b>	<b>0</b>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	409,888	18,049,278	18,459,166
Restricted for:			
Depreciation Reserve		241,587	241,587
Construction		309,846	309,846
Unrestricted	602,868	68,751	671,619
<b>Total Net Position</b>	<b>\$ 1,012,756</b>	<b>\$ 18,669,462</b>	<b>\$ 19,682,218</b>

The accompanying notes are an integral part of the financial statements.

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

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		<b>Net (Expenses) Revenues and Changes in Net Position</b>			
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 33,953	\$	\$	\$	\$ (33,953)	\$	\$ (33,953)
Roads	9,585		25,568		15,983		15,983
Interest on Long Term Debt	1,993				(1,993)		(1,993)
Recreation and Culture	26,655				(26,655)		(26,655)
Fire Protection	18,990				(18,990)		(18,990)
Total Governmental Activities	91,176		25,568		(65,608)		(65,608)
Business-type Activities:							
Water and Sewer Utility	1,988,347	1,407,110		132,604		(448,633)	(448,633)
<b>Total Primary Government</b>	<b>\$ 2,079,523</b>	<b>\$ 1,407,110</b>	<b>\$ 25,568</b>	<b>\$ 132,604</b>	<b>(65,608)</b>	<b>(448,633)</b>	<b>(514,241)</b>
<b>General Revenues, Transfers, and Special Items:</b>							
Taxes							
Property					26,336		26,336
Insurance Premium					69,920		69,920
Telecommunications Taxes					6,238		6,238
Licenses					2,400		2,400
Miscellaneous					49		49
Interest Earned					4,245	5,639	9,884
<b>Total General Revenues, Transfers and Special Items</b>					<b>109,188</b>	<b>5,639</b>	<b>114,827</b>
<b>Change in Net Position</b>					<b>43,580</b>	<b>(442,994)</b>	<b>(399,414)</b>
<b>Net Position - Beginning (Restated)</b>					<b>969,176</b>	<b>19,112,456</b>	<b>20,081,632</b>
<b>Net Position - Ending</b>					<b>\$ 1,012,756</b>	<b>\$ 18,669,462</b>	<b>\$ 19,682,218</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**As of June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 306,358	\$ 255,307	\$ 561,665
Due from Other Funds	38,816	2,387	41,203
<b>TOTAL ASSETS</b>	<b>345,174</b>	<b>257,694</b>	<b>602,868</b>
<b>FUND BALANCES</b>			
Fund Balances:			
Unassigned	345,174		345,174
Assigned:			
Roads		257,694	257,694
<b>TOTAL FUND BALANCES</b>	<b>\$ 345,174</b>	<b>\$ 257,694</b>	<b>\$ 602,868</b>

**Reconciliation to Statement of Changes in Net Position:**

Total Governmental Fund Balances	\$ 602,868
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not Reported in the Funds.	(40,665)
Capital Assets Used in Governmental Activities of \$673,420, Net of Accumulated Depreciation of \$222,867, are not Financial Resources and, Therefore, are not Reported in the Funds.	450,553
<b>Net Position of Governmental Activities</b>	<b>\$ 1,012,756</b>

The accompanying notes are an integral part of the financial statements.



**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes			
City Tax Fees	\$ 26,336	\$	\$ 26,336
Insurance Premium	69,920		69,920
Telecommunications Taxes	6,238		6,238
Occupational License	1,650		1,650
Malt/Alcohol Beverage License	750		750
Miscellaneous Revenues	50		50
Coal/Mineral Taxes		16,901	16,901
Municipal Road Aid		8,667	8,667
	<hr/>	<hr/>	<hr/>
Total Revenues	104,944	25,568	130,512
<b>EXPENDITURES</b>			
Current			
General Government	31,785		31,785
Road Expenses		7,254	7,254
Debt Payments	9,498		9,498
Fire Protection	18,990		18,990
Total Expenditures	<hr/>	<hr/>	<hr/>
	60,273	7,254	67,527
Excess (Deficiency) of Revenues			
Over Expenditures Before Transfers			
And Other Financing Sources (Uses)	44,671	18,314	62,985
<b>OTHER FINANCING SOURCES (USES)</b>			
Interest Income	<hr/>	<hr/>	<hr/>
Total Other Financial Sources (Uses)	2,277	1,967	4,244
	<hr/>	<hr/>	<hr/>
Total Other Financial Sources (Uses)	2,277	1,967	4,244
Net Change in Fund Balances	46,948	20,281	67,229
Fund Balances, Beginning	<hr/>	<hr/>	<hr/>
	298,226	237,413	535,639
Fund Balances, Ending	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 345,174	\$ 257,694	\$ 602,868

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, 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, 2016**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances-Total Governmental Funds	\$	67,229
<p>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:</p>		
Depreciation Expense		(31,154)
<p>Debt Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.</p>		
Financing Obligations		7,505
Change in Net Position of Governmental Activities	\$	43,580

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF FUND NET POSITION – PROPRIETARY FUND**  
**As of June 30, 2016**

	<b>Water and Sewer</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 584,472
Receivables:	
Customers	121,590
Unbilled	39,559
Grants	6,600
Restricted Assets:	
Cash and Cash Equivalents	551,433
Prepaid Surety Bond Payment	2,538
Prepaid Insurance	23,785
Total Current Assets	1,329,977
Noncurrent Assets:	
Capital Assets-Net of Accum. Depr.	
Construction in Progress	23,030
Land	347,101
Vehicles and Equipment	141,815
Infrastructure	21,044,204
Total Noncurrent Assets	21,556,150
Total Assets	22,886,127
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	162,566
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued Wages	9,385
Accrued Payroll Liabilities	1,816
Accrued Interest	39,547
Accounts Payable - Trade	25,185
Retirement Payable	6,844
Sales Tax Payable	991
Utility Tax Payable	2,257
Customer Deposits	125,456
Due to Other Funds	41,203
Loans Payable	61,242
Bonds Payable	65,000
Total Current Liabilities	378,926

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF FUND NET POSITION – PROPRIETARY FUND**  
**As of June 30, 2016**

**LIABILITIES (CONTINUED)**

Noncurrent Liabilities:

Net Pension Liability	643,541
Compensated Absences	15,681
Loans Payable	1,152,069
Bonds Payable	2,189,014
Total Noncurrent Liabilities	4,000,305
Total Liabilities	4,379,231

**DEFERRED INFLOWS OF RESOURCES** 0

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	18,049,278
Restricted for:	
Depreciation Reserve	241,587
Construction	309,864
Unrestricted	68,733
Total Net Position	\$ 18,669,462

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION – PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

**OPERATING REVENUES**

Sewer Revenue	\$ 257,390
Water Revenue	1,147,048
Miscellaneous	<u>2,672</u>
Total Operating Revenues	<u>1,407,110</u>

**OPERATING EXPENSES**

Sewer Expense	426,296
Water Expense	<u>1,475,270</u>
Total Operating Expenses	<u>1,901,566</u>

**NET OPERATING INCOME (LOSS)** (494,456)

**NON-OPERATING REVENUES (EXPENSES)**

Grant Proceeds	132,604
Interest Income	5,639
Interest Expense	<u>(86,781)</u>
Total Non-Operating Revenues (Expenses)	<u>51,462</u>

Change in Net Position (442,994)

**NET POSITION - BEGINNING OF YEAR (Restated)** 19,112,456

**NET POSITION - END OF YEAR** \$ 18,669,462

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

	<u><b>Water and Sewer</b></u>
<b>Cash flows from Operating Activities:</b>	
Payments Received from Customers	\$ 1,398,110
Miscellaneous Revenues	2,672
Payments to Suppliers	(671,890)
Payments for Salaries and Benefits	(578,373)
Net Cash Provided (Used) by Operating Activities	<u>150,519</u>
 <b>Cash Flows from Capital and Related Financing Activities:</b>	
Grants Received	126,004
Capital Assets Purchased or Constructed	(199,938)
Interest Paid on Debt	(47,234)
Principal Paid on Debt	(96,826)
Increase in Restricted Accounts	(8,743)
Net Cash Provided (Used) by Financing Activities	<u>(226,737)</u>
 <b>Cash Flows from Non Capital and Related Financing Activities:</b>	
Due to/from Other Funds	(734)
Net Cash Provided (Used) by Non Capital and Related Financing Activities	<u>(734)</u>
 <b>Cash Flows from Investing Activities:</b>	
Interest Income	5,638
Net Cash Provided (Used) by Investing Activities	<u>5,638</u>
 Net Increase (Decrease) in Cash	 (71,314)
 Cash at Beginning of Year	 <u>655,786</u>
Cash at End of Year	<u><u>\$ 584,472</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

**Reconciliation of Operating Income to Net Cash Used**

**by Operating Activities**

Operating Income (Loss)	\$	(494,456)
Adjustment to Reconcile Operating Income to		
Cash Provided (Used) by Operating Activities		
Depreciation		673,094
Changes in Assets and Liabilities:		
Accounts Payable - Trade		(12,708)
Accounts Payable - Payroll Liabilities		(4,850)
Accounts Payable - Retirement		707
Customer Deposits		10,300
Accounts Receivables		(10,674)
Prepaid Insurance		(17,853)
Unbilled Receivables		(5,953)
Deferred Outflows		12,912
Net Cash Provided (Used) by Operating Activities	\$	150,519

The accompanying notes are an integral part of the financial statements.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the City of Campton, Kentucky (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Financial Reporting Entity

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

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

The financial statements of the City of Campton, Kentucky include the funds, agencies, boards, and entities for which the City is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the city is financially accountable or the organization's exclusion would cause the city's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the City. The effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.



**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements (Continued)

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

The statement of net position presents the City's assets and liabilities, the difference between the two being reported as net position. Net position is reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The city may also designate any fund as a major fund. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

*Governmental Funds*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due (matured).

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the City. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function. Activities include general administration of the city and the street maintenance department.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements (Continued)

*Governmental Funds (Continued)*

Special Revenue Fund - Special revenue funds account for activities in which revenue is legally designated for a specific purpose. This fund accounts for the Municipal Road Aid and the Coal and Severance Tax revenues. These revenues pay for the construction, reconstruction, and maintenance of city streets.

*Proprietary Fund*

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net position, financial position and cash flows. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund - The water and sewer fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

Budgeting

The City prepares budgets annually. These budgets are adopted on the cash basis of accounting and are used as a management control device. Budgeted amounts in the financial statements are as amended and adopted by ordinance of the City.

Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

Inventory

Supplies and materials are charged to expenditures when purchased.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets, that have a useful life of more than one reporting period based on the government’s capitalization policy, are reported in the applicable governmental or business-type activities columns of the government-wide financial statements and in the fund financial statements for proprietary funds. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed.

Major additions and improvements are capitalized including extensions to water lines, sometimes referred to as infrastructure, while cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is capitalized for proprietary funds. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$10,000	10-40
Buildings and Building Improvements	\$10,000	10-40
Infrastructure	\$10,000	10-20
Vehicles and Equipment	\$10,000	3-10

Cash and Investments

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, money market funds, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of these financial statements, cash and cash equivalents of the proprietary funds consist of unrestricted cash in bank used for operations.

KRS 66.480 authorizes the city to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Doubtful Accounts

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

Unbilled Receivables

The City reads meters between the 15<sup>th</sup> and the 20<sup>th</sup> of each month. The bills for the current reading go out on the first day of the following month. The Unbilled Receivables represents approximately 10 days at the end of June that was not billed until August 1.

Interfund Transactions

Receivables and payables resulting from short-term interfund loans are classified as “Due to/from Other Funds.” Interfund loans are used to pay for operating activities.

Due to General Fund from Utility Fund	\$ 38,816
Due to Special Revenue Fund from Utility Fund	\$ 2,387

Fund Equity

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance.* This classification reflects the amounts constrained by the city’s “intent” to be used for specific purposes, but are neither restricted nor committed. The city council and mayor have authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity (Continued)

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the city’s policy to use externally restricted resources first, then unrestricted revenues – committed, assigned, and unassigned – in order as needed.

**NOTE B – CASH AND INVESTMENTS**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the city and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city’s deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2016, the bank balance was \$1,797,844. As of June 30, 2016 the bank balances were either insured by FDIC or covered by pledged collateral.

Deposits Covered By Federal Insurance	\$ 560,905
Deposits Collateralized	<u>1,236,939</u>
Total Bank Balance	<u>\$ 1,797,844</u>

**NOTE C – PROPERTY TAX CALENDAR**

The City levies real estate taxes on all real property on a calendar year basis, at a rate enacted by the City on the assessed value of property (except public utility property) as determined by the County Property Valuation Administrator. All property is assessed at 100 percent of fair market value and reassessed each year as of January 1. The due date and collection periods for property taxes are as follows:

<u>Description</u>	<u>Per K.R.S. 134.020</u>
Due date for payment of taxes	Upon Receipt
Face value amount payment date	March 1 to April 30
Delinquent date penalty & interest	May 1

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, following the assessment.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE D – RESTRICTIONS ON CASH**

*Depreciation Reserve*

Rural Development currently requires a \$310 monthly payment to be deposited into the depreciation reserve until the balance is at least \$148,920. The amount in the Reserve Account at June 30, 2016 is \$241,587.

*Sinking Fund Reserve*

Rural Development requires one-sixth of the next succeeding interest payment and one-twelfth of the next succeeding principal payment of any current bond to be deposited into this reserve. The money that accumulates in this reserve is to be used to pay current interest and principal on bonds as they come due. In lieu of making monthly deposits to this account, the City makes monthly bond payments directly to Rural Development.

*Restricted for Construction*

The City has \$309,846 in funds set aside for construction projects that include a wastewater treatment plant and a water extension project.

*Customer Security Deposits*

The City has \$270,106 in funds set aside to refund utility customer deposits.

**NOTE E – LONG-TERM DEBT**

*Business-Type Activities*

**BONDS**

Bonds payable at June 30, 2016 consists of the following issues:

\$274,000 Water and Sewer Revenue Bonds of 1980 maturing through January 2020 in accordance with original amortization schedule, with interest at 5.0%, collateralized by the revenues of the Combined Water and Sewer System	\$13,947
\$160,000 Water and Sewer Revenue Bonds of 1989 maturing through January 2029 in accordance with original amortization schedule, with interest at 5.0%, collateralized by the revenues of the Combined Water and Sewer System	89,200
\$271,000 Water and Sewer Revenue Bonds of 1995, Series A, maturing through January 2035 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	192,100
\$593,000 Water and Sewer Revenue Bonds of 1999, maturing through January 2039 in accordance with original amortization schedule, with interest at 3.25%, collateralized by the revenues of the Combined Water and Sewer System	464,000

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

*Business-Type Activities (Continued)*

BONDS (Continued)

\$400,000 Water and Sewer Revenue Bonds of 2003, maturing through January 2043 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	343,000
\$392,000 Water and Sewer Revenue Bonds of 2004, maturing through January 2044 in accordance with original amortization schedule, with interest at 4.5%, collateralized by the revenues of the Combined Water and Sewer System	342,000
\$892,000 Water and Sewer Revenue Bonds of 2011, maturing through January 2049 in accordance with original amortization schedule, with interest at 2.25%, collateralized by the revenues of the Combined Water and Sewer System	<u>809,767</u>
<b>Total</b>	<u><u>\$ 2,254,014</u></u>

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2016 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash. See Note C.

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of June 30, 2016 according to the bond documents, including interest payments are as follows:

**WATER & SEWER REVENUE BONDS OF 1980**

Year	Principal	Interest*	Total Payment
2017	\$ 13,000	\$ 2,717	\$ 15,717
2018	947	2,067	3,014
	\$ 13,947	\$ 4,784	\$ 18,731

\*Based on Original Amortization Schedule

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

*Business-Type Activities (Continued)*

BONDS (Continued)

**WATER & SEWER REVENUE BONDS OF 1989**

Year	Principal	Interest*	Total Payment
2017	\$ 5,000	\$ 4,451	\$ 9,451
2018	5,300	4,201	9,501
2019	5,500	3,936	9,436
2020	5,800	3,661	9,461
2021-2025	33,700	13,650	47,350
2026-2029	33,900	4,324	38,224
	<u>\$ 89,200</u>	<u>\$ 34,223</u>	<u>\$ 123,423</u>

\*Based on Original Amortization Schedule

**WATER & SEWER REVENUE BONDS OF 1995 - Series A**

Year	Principal	Interest*	Total Payment
2017	\$ 6,500	\$ 8,745	\$ 15,245
2018	6,500	8,453	14,953
2019	7,000	8,160	15,160
2020	7,500	7,845	15,345
2021-2025	42,500	33,939	76,439
2026-2030	54,000	23,386	77,386
2031-2035	68,100	9,909	78,009
	<u>\$ 192,100</u>	<u>\$ 100,437</u>	<u>\$ 292,537</u>

\*Based on Original Amortization Schedule



**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

*Business-Type Activities (Continued)*

BONDS (Continued)

**WATER & SEWER REVENUE BONDS OF 1999**

Year	Principal	Interest*	Total Payment
2017	\$ 12,000	\$ 15,015	\$ 27,015
2018	12,000	14,625	26,625
2019	13,000	14,235	27,235
2020	14,000	13,812	27,812
2021-2025	78,000	61,944	139,944
2026-2030	97,000	48,065	145,065
2031-2035	120,000	30,874	150,874
2036-2039	118,000	9,489	127,489
	<u>\$ 464,000</u>	<u>\$ 208,059</u>	<u>\$ 672,059</u>

\*Based on Original Amortization Schedule

**WATER & SEWER REVENUE BONDS OF 2003**

Year	Principal	Interest*	Total Payment
2017	\$ 6,500	\$ 15,435	\$ 21,935
2018	7,000	15,143	22,143
2019	7,500	14,828	22,328
2020	7,500	14,490	21,990
2021-2025	44,000	66,961	110,961
2026-2030	55,000	45,901	100,901
2031-2035	68,000	42,639	110,639
2036-2040	84,500	25,921	110,421
2041-2043	63,000	5,851	68,851
	<u>\$ 343,000</u>	<u>\$ 247,169</u>	<u>\$ 590,169</u>

\*Based on Original Amortization Schedule

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

*Business-Type Activities (Continued)*

BONDS (Continued)

**WATER & SEWER REVENUE BONDS OF 2004**

Year	Principal	Interest*	Total Payment
2017	\$ 6,000	\$ 15,390	\$ 21,390
2018	7,000	15,120	22,120
2019	7,000	14,805	21,805
2020	7,000	14,490	21,490
2021-2025	42,000	67,230	109,230
2026-2030	51,000	57,060	108,060
2031-2035	64,000	44,415	108,415
2036-2040	80,000	28,620	108,620
2041-2044	78,000	9,000	87,000
	<u>\$ 342,000</u>	<u>\$ 266,130</u>	<u>\$ 608,130</u>

\*Based on Original Amortization Schedule

**WATER & SEWER REVENUE BONDS OF 2010**

Year	Principal	Interest*	Total Payment
2017	\$ 16,000	\$ 18,371	\$ 34,371
2018	16,500	18,011	34,511
2019	17,000	17,640	34,640
2020	17,500	17,258	34,758
2021-2025	95,000	80,157	175,157
2026-2030	107,500	68,907	176,407
2031-2035	120,500	56,250	176,750
2036-2040	136,500	41,984	178,484
2041-2045	154,500	25,841	180,341
2046-2049	128,767	7,617	136,384
	<u>\$ 809,767</u>	<u>\$ 352,036</u>	<u>\$ 1,161,803</u>

\*Based on Original Amortization Schedule

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

LOANS

*Business-type Activities*

The following is a summary of the City’s business-type long-term loans payable for the year ended June 30, 2016:

1. On October 1, 2009, the Kentucky Infrastructure Authority approved the City’s American Recovery and Reinvestment Act (ARRA) loan for the Water Treatment Plant project. The authority provided \$683,200 of funding, of which 54.1% of the principal will be forgiven. The loan will bear interest at the rate of 1.0% per annum and shall be repaid over a period not to exceed 20 years. As of June 30, 2016, the principal balance outstanding was \$248,653. Debt service requirements for the year ending June 30, 2016, and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2017	\$ 14,908	\$ 3,062	\$ 17,970
2018	15,058	2,875	17,933
2019	15,209	2,686	17,895
2020	15,361	2,496	17,857
2021-2025	79,146	9,552	88,698
2026-2030	83,194	4,492	87,686
2031-2032	25,777	323	26,100
	<u>\$ 248,653</u>	<u>\$ 25,486</u>	<u>\$ 274,139</u>

2. On August 1, 2012, the City of Campton entered into an assistance agreement for a federally assisted wastewater revolving loan fund program (Fund A) with the Kentucky Infrastructure Authority. The loan maximum is \$1,400,000, of which 30% of the principal will be forgiven. The loan will bear an interest rate of one percent per annum, commencing with the first draw of funds (December 1, 2012), and shall be repaid over a period not to exceed twenty years. As of June 30, 2016, the principal balance outstanding was \$964,658. Debt service requirements for the year ending June 30, 2016, and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2017	\$ 46,334	\$ 9,435	\$ 55,769
2018	46,799	8,969	55,768
2019	47,269	8,499	55,768
2020	47,744	8,024	55,768
2021-2025	246,013	32,829	278,842
2026-2030	258,621	34,508	293,129
2031-2035	271,878	12,521	284,399
	<u>\$ 964,658</u>	<u>\$ 114,785</u>	<u>\$ 1,079,443</u>

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE E – LONG-TERM DEBT (Continued)**

LOANS (Continued)

*Governmental-Type Activities*

The following is a summary of the City’s governmental-type long-term loans payable for the year ended June 30, 2016:

1. \$90,000 Farmers & Traders Bank loan payable in monthly installments totaling \$792 maturing January 1, 2021 with interest at 4.0%, collateralized by real estate. The balance due as of June 30, 2016 was \$40,665.

Year	Principal	Interest	Total Payment
2017	\$ 8,072	\$ 1,427	\$ 9,499
2018	8,401	1,098	9,499
2019	8,743	756	9,499
2020	9,100	399	9,499
2021	6,349	63	6,412
	<u>\$ 40,665</u>	<u>\$ 3,743</u>	<u>\$ 44,408</u>

Debt Service in the Aggregate (Business-Type Bonds and Loans and Governmental Loans)

Year	Principal	Interest*	Total Payment
2017	\$ 134,314	\$ 94,048	\$ 228,362
2018	125,505	90,562	216,067
2019	128,221	85,545	213,766
2020	131,505	82,475	213,980
2021-2025	666,708	366,325	1,033,033
2026-2030	740,215	286,643	1,026,858
2031-2035	738,255	196,931	935,186
2036-2040	419,000	106,014	525,014
2041-2045	295,500	40,692	336,192
2046-2049	128,767	7,617	136,384
	<u>\$ 3,507,990</u>	<u>\$ 1,356,852</u>	<u>\$ 4,864,842</u>

\*Based on Original Amortization Schedules

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE F – CHANGES IN LONG-TERM LIABILITIES**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Loans	\$ 48,170	\$	\$ 7,505	\$ 40,665	\$ 8,072
Governmental Activities Long-term Liabilities	<u>\$ 48,170</u>	<u>\$ 0</u>	<u>\$ 7,505</u>	<u>\$ 40,665</u>	<u>\$ 8,072</u>
<u>Business-Type Activities:</u>					
Bonds	\$ 2,320,738	\$	\$ 66,724	\$ 2,254,014	\$ 65,000
Loans	1,243,413		30,102	1,213,311	61,242
Business-Type Activities Long-term Liabilities	<u>\$ 3,564,151</u>	<u>\$ 0</u>	<u>\$ 96,826</u>	<u>\$ 3,467,325</u>	<u>\$ 126,242</u>

Interest expense included in the governmental activities was \$1,993.

**NOTE G – COMPENSATED ABSENCES**

Upon retirement from the City, an employee will receive from the City an amount equal to their accumulated unused vacation at their present rate of pay. Employees accumulate 3.33 hours of vacation per month for the first year of employment, 6.67 hours per month for the second through tenth years of employment, and 10 hours per month for the years of service greater than 10 years. As of January 8, 2002, the City adopted a policy limiting the amount of compensated absences that can be carried over. Vacation time is limited to 120 hours of carryover. Accrued compensated absences at June 30, 2016 were \$15,681.

**NOTE H – INSURANCE COVERAGE**

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

**NOTE I – CONSTRUCTION IN PROGRESS**

Construction in progress, in the utility fund, consisted of \$23,030 for the Safe Routes to School project.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE J – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 53,161	\$	\$ (53,161)	\$ 0
Land	144,062			144,062
Total Capital Assets Not Being Depreciated	197,223		(53,161)	144,062
Capital Assets, Being Depreciated:				
Land Improvements	53,963	53,161		107,124
Buildings and Improvements	86,709			86,709
Equipment	99,240			99,240
Infrastructure	236,285			236,285
Total Capital Assets Being Depreciated	476,197	53,161		529,358
Less Accumulated Depreciation For:				
Land Improvements	(16,975)	(5,942)		(22,917)
Buildings and Improvements	(22,611)	(2,168)		(24,779)
Equipment	(81,666)	(8,069)		(89,735)
Infrastructure	(70,461)	(14,975)		(85,436)
Total Accumulated Depreciation	(191,713)	(31,154)		(222,867)
Total Capital Assets, Being Depreciated, Net	284,484	22,007		306,491
Governmental Activities Capital Assets, Net	<u>\$ 481,707</u>	<u>\$ 22,007</u>	<u>\$ (53,161)</u>	<u>\$ 450,553</u>

Depreciation was charged to governmental functions as follows:

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

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE J – CAPITAL ASSETS (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 2,888,785	\$ 136,285	\$ (3,002,040)	\$ 23,030
Land and Land Improvements	347,101			347,101
Total Capital Assets Not Being Depreciated	3,235,886	136,285	(3,002,040)	370,131
Capital Assets, Being Depreciated:				
Utility Plant and Lines	24,923,642	3,002,040		27,925,682
Vehicles and Equipment	248,027	58,653		306,680
Total Capital Assets Being Depreciated	25,171,669	3,060,693		28,232,362
Less Accumulated Depreciation for:				
Utility Plant and Lines	(6,230,843)	(650,635)		(6,881,478)
Vehicles and Equipment	(142,406)	(22,459)		(164,865)
Total Accumulated Depreciation	(6,373,249)	(673,094)		(7,046,343)
Total Capital Assets Being Depreciated, Net	18,798,420	2,387,599		21,186,019
Total Utilities Capital Assets, Net	<u>\$ 22,034,306</u>	<u>\$ 2,523,884</u>	<u>\$ (3,002,040)</u>	<u>\$ 21,556,150</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Utility	\$ 673,094
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**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE K - RETIREMENT**

The Council, on June 1, 1999, adopted an ordinance establishing the County Employee Retirement System (CERS).

*County Employee Retirement System*

General Information about the Pension Plan

The city has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member’s account and 1% will go to the KRS insurance fund. The city’s contribution rate for nonhazardous employees was 17.06% percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member’s account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. A member’s account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The city’s contribution for FY 2014 was \$63,795, FY 2015 was \$61,939, and FY 2016 was \$62,118.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%



**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE K – RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

General Information about the Pension Plan (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS’ progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems’ annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Pension Liabilities

At June 30, 2016, the City has a liability of \$643,541 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of Jun 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the Kentucky Retirement Systems. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City’s proportion was .0149682% for non-hazardous.

For the year ended June 30, 2016, the City recognized pension expense of \$75,032. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Schedule of Deferred Inflows and Outflows**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 5,348	\$
Changes in Assumptions	64,894	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,769	
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	6,598	
City Contributions and Cash Balance Subsequent to the Measurement Date	<u>79,957</u>	
Total	<u>\$ 162,566</u>	<u>\$ 0</u>

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE K – RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

Pension Liabilities (Continued)

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ 26,040
Year 2	\$ 26,040
Year 3	\$ 12,327
Year 4	\$ 11,606
Year 5	\$ 0
Thereafter	\$ 0

Actuarial Methods and Assumptions

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

Inflation	3.25%
Salary Increases	4.0%
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 when the next experience investigation is conducted.

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE K – RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

Actuarial Methods and Assumptions (Continued)

Projected future benefit payments for all plan members were projected through 2117.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	0.04%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

Discount Rate

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

The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate for non-hazardous:

<b>NON-HAZARDOUS</b>	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's Net Pension Liability	\$ 821,575	\$ 643,541	\$ 491,093

Deferred Inflows and Outflows

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2016, is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE L – PRIOR PERIOD ADJUSTMENT**

The beginning net position – proprietary fund for the year ended June 30, 2016 has been restated. There is an increase of \$3,248 to the beginning net position – proprietary fund to record bank errors.

**NOTE M – RELATED PARTY TRANSACTIONS**

A Council Member of the City is an employee of the one of the depositories where the City's cash and investments are held.

**NOTE N – SUBSEQUENT REVIEW**

Subsequent events have been evaluated through December 13, 2016, which is the date the financial statements were available to be issued.

**Required Supplemental Information**

**CITY OF CAMPTON, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplemental Information – Cash Basis**

**For The Year Ended June 30, 2016**

	<b>GENERAL FUND</b>			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes				
City Tax Fees	\$ 28,000	\$ 28,000	\$ 26,336	\$ (1,664)
Insurance Premium	60,000	60,000	69,920	9,920
Telecommunication	6,239	6,239	6,238	(1)
Occupational License Fees	2,100	2,100	1,650	(450)
Malt/Alcohol Beverage License	1,150	1,150	750	(400)
Miscellaneous Income	200	200	50	(150)
Total Revenues	<u>97,689</u>	<u>97,689</u>	<u>104,944</u>	<u>7,255</u>
<b><u>EXPENDITURES</u></b>				
General Government	40,189	40,189	31,785	8,404
Debt Payments	14,500	14,500	9,498	5,002
Fire Protection	35,000	35,000	18,990	16,010
Miscellaneous	10,000	10,000		10,000
Total Expenditures	<u>99,689</u>	<u>99,689</u>	<u>60,273</u>	<u>39,416</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,000)	(2,000)	44,671	46,671
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Interest Income	2,000	2,000	2,277	277
Total Other Financing Sources (Uses)	<u>2,000</u>	<u>2,000</u>	<u>2,277</u>	<u>277</u>
Net Change in Fund Balances			46,948	46,948
Fund Balances, Beginning			<u>298,226</u>	<u>298,226</u>
Fund Balances, Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 345,174</u>	<u>\$ 345,174</u>

**CITY OF CAMPTON, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplemental Information – Cash Basis**

**For The Year Ended June 30, 2016**

	<b>SPECIAL REVENUE FUND</b>		
	Original/Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
LGEA Monies	\$ 35,000	\$ 16,901	\$ (18,099)
Road Fund Monies	20,000	8,667	(11,333)
Total Revenues	<u>55,000</u>	<u>25,568</u>	<u>(29,432)</u>
<b>EXPENDITURES</b>			
Roads	56,400	7,254	49,146
Total Expenditures	<u>56,400</u>	<u>7,254</u>	<u>49,146</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,400)	18,314	19,714
<b>OTHER FINANCING SOURCES (USES)</b>			
Interest	1,400	1,967	567
Total Other Financing Sources (Uses)	<u>1,400</u>	<u>1,967</u>	<u>567</u>
Net Changes in Fund Balance		20,281	20,281
Fund Balance - Beginning		<u>237,413</u>	<u>237,413</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 257,694</u>	<u>\$ 257,694</u>

**CITY OF CAMPTON, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF**  
**THE NET PENSION LIABILITY**  
**For the Year Ended June 30, 2016**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>	
	2014	2015
City's Proportion of the Net Pension Liability (Asset)	0.014712%	0.014968%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 477,000	\$ 643,541
City's Covered-Employee Payroll	\$ 337,105	\$ 342,863
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.50%	187.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%

**Note:**

This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.



**CITY OF CAMPTON, KENTUCKY**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**For the Year Ended June 30, 2016**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>	
	2014	2015
Contractually Required Contribution	\$ 63,757	\$ 62,118
Contributions in Relation to the Contractually Required Contribution	63,795	44,525
Contribution Deficiency (Excess)	\$ (38)	\$ 17,593
City's Covered-Employee Payroll	\$ 337,105	\$ 342,863
Contributions as a Percentage of Covered- Employee Payroll	18.91%	18.12%

**Note:**

This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**Required Supplementary Information – Cash Basis**

**June 30, 2016**

**Note 1. Budgetary Information**

**A.** Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The City Mayor is required to submit estimated receipts and proposed expenditures to the commissioners by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the city by July 1.

The city may change the original budget by transferring appropriations at the activity level; however, the city may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Actuarially Determined Pension Contributions**

**A. Changes in Benefit Terms**

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

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

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

**2014:** A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

**B. Changes of Assumption**

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

**2015:**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

**CITY OF CAMPTON, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**Required Supplementary Information – Cash Basis**

**June 30, 2016**

**C. Method and Assumptions Used in Calculations of Actuarially Determined Contributions**

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

## **Other Supplemental Information**

**CITY OF CAMPTON, KENTUCKY**  
**SCHEDULE OF EXPENSES – PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

	Sewer	Water	Total Expense
Auditors Fees	\$ 1,045	\$ 4,455	\$ 5,500
Bank Charges	4	19	23
Commissioners Pay	5,928	25,272	31,200
Depreciation	191,438	481,656	673,094
Dues & Subscriptions	670	2,858	3,528
Equipment Repair	4,260	18,163	22,423
Fuel	4,037	17,210	21,247
Insurance	22,598	96,340	118,938
Legal Services	1,108	4,722	5,830
Miscellaneous	1,033	4,406	5,439
Office Supplies	2,207	9,407	11,614
Parts & Chemicals	25,746	109,758	135,504
Payroll Taxes	5,528	23,565	29,093
Postage & Delivery	53	226	279
Printing & Advertising	302	1,289	1,591
Purchase of Water		27,536	27,536
Repairs and Maintenance	12,280	52,353	64,633
Retirement Benefits	14,256	60,775	75,031
Salaries & Wages	71,804	306,110	377,914
Sales Tax Expense	2,735	11,661	14,396
Samples	4,340	18,503	22,843
Sewer Plant Expense	11,400		11,400
Surety Bonds	793	3,383	4,176
Training	713	3,039	3,752
Unemployment Insurance	1,136	4,844	5,980
Utilities	34,600	147,506	182,106
Utility Tax	5,296	22,578	27,874
Vehicle Maintenance	986	4,202	5,188
Water Plant Expense		14,169	14,169
Water Samples		(1,630)	(1,630)
Water Use Fees		895	895
Total	<u>\$ 426,296</u>	<u>\$ 1,475,270</u>	<u>\$ 1,901,566</u>

# *Morgan-Franklin, LLC*

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

Honorable Mayor and City Commissioners  
City of Campton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Campton, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Campton, Kentucky's basic financial statements and have issued our report thereon dated December 13, 2016.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2016-001, 2016-002, 2016-003 and 2016-004 to be material weaknesses.

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. We consider the deficiencies described in the accompanying comments and recommendations as items 2016-005, 2016-006 and 2016-007 to be significant deficiencies.

**Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Campton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2016-008, 2016-009 and 2016-010.

**The City of Campton, Kentucky's Response to Findings**

The City of Campton, Kentucky's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The City of Campton, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

December 13, 2016

## **Comments and Recommendations**



**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**MATERIAL WEAKNESSES**

**2016-001 The City Should Have Adequate Controls Over Disbursements**

Condition: Of the twenty-five disbursements tested during our audit, we noted the following:

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

Criteria:

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

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

Cause: Lack of adequate controls over disbursements.

Recommendation: We recommend all disbursements be approved by the City and be paid within 30 working days. We recommend checks be dated as of the date actually issued.

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

**2016-002 The City Clerk Should Properly Record Expenditures and Revenues**

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

**CITY OF CAMPTON, KENTUCKY**  
**COMMENTS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2016**

**MATERIAL WEAKNESSES (Continued)**

**2016-002 The City Clerk Should Properly Record Expenditures and Revenues (Continued)**

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

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

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

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

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

**2016-003 The City Lacks Adequate Controls Over Bank Reconciliation Process**

Condition: During our audit, we noted the following:

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

Criteria: Bank reconciliations should reflect the actual book balance at the date the bank reconciliation is performed. Deposits in transit should include receipts on hand, but not yet deposited. Outstanding checks and transfers should reflect transactions that were actually initiated prior to the bank reconciliation date.

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

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

Recommendation: The bank reconciliations should be reviewed each month by a person independent of the reconciliation process and the bank statements should be opened and viewed by an independent person before the statements are given to the City Clerk to reconcile. We also recommend the City Clerk

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**MATERIAL WEAKNESSES (Continued)**

**2016-003 The City Lacks Adequate Controls Over Bank Reconciliation Process (Continued)**

Recommendation: (Continued)

obtain training on the use of QuickBooks and the City's accounting software in order to facilitate the proper preparation of bank reconciliations.

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

**2016-004 Reimbursements Were Requested For The Same Pay Requests From More Than One Federal Agency (Uncorrected Prior Year Finding)**

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

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

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**MATERIAL WEAKNESSES (Continued)**

**2016-004 Reimbursements Were Requested For The Same Pay Requests From More Than One Federal Agency (Uncorrected Prior Year Finding (Continued))**

Condition (Continued);

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

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

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

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

Two of the duplicate reimbursements from the Army Corp of Engineers were received in December 2014 and March 2015. As of the date of our audit report, no repayments had been made with these funds. The cash balance in the project account at June 30, 2015 was \$225,797, and at June 30, 2016 was \$170,458. This balance appears to be the result of the duplicate billings outlined above. We believe 100% of the

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**MATERIAL WEAKNESSES (Continued)**

**2016-004 Reimbursements Were Requested For The Same Pay Requests From More Than One Federal Agency (Uncorrected Prior Year Finding (Continued))**

Condition (Continued); interim financing drawdowns should be reimbursed to the EPA. The draws used as interim financing equal \$225,761. Accordingly, ARC reimbursed \$45,178.87 and the Corp of Engineers reimbursed \$180,492.10. If the City only returns 70% or \$157,969.67, 30% or \$67,701.29 would be excess funds.

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

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

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

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

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

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

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

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**SIGNIFICANT DEFICIENCIES**

**2016-005 The City Clerk Should Prepare A Complete And Accurate Schedule Of Expenditures Of Federal Awards**

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

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

- List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- Include the total amount provided to subrecipients from each Federal program.
- For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs

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

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

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

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

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**SIGNIFICANT DEFICIENCIES (Continued)**

**2016-006 The City Council Should Approve The Opening Of All Bank Accounts**

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

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

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

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

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

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

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

Condition: During the course of our audit, we noted that employee paystub sick and vacation balances did not agree with employee time off accrued and used balance reports. We inquired of the City clerk as to why these reports did not agree and she had no explanation.

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

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

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

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

*The City's Response: Clerk will Run Reports with each pay Stub to check balances*

**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**NONCOMPLIANCES**

**2016-008 The City Should Comply With Bond Covenants**

Condition: During our audit, we noted the following:

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

Criteria: Per the bond agreement, the City shall:

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

Effect: The City may not be in compliance with bond covenants.

Cause: Lack of knowledge of bond covenants.

Recommendation: We recommend the City familiarize themselves with all bond covenants.

*The City's Response: Clerk will work with City Attorney to familiarize with all bond covenants*



**CITY OF CAMPTON, KENTUCKY  
COMMENTS AND RECOMMENDATIONS  
For the Year Ended June 30, 2016**

**NONCOMPLIANCES (Continued)**

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

Condition: During the course of our audit and reviewing the client's general ledger we noted that the City was assessed and paid a \$1,000 penalty to the Kentucky Department for Environmental Protection, Division Of Enforcement, for violation of KRS Chapter 224.

Criteria: Violation of KRS Chapter 224 and regulations promulgated pursuant thereto, and failure to meet the terms and conditions of Agreed Order DOW 1300040.

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

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

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

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

**2016-10 Reimbursements Were Requested For The Same Pay Requests From More Than One Federal Agency (Uncorrected Prior Year Finding)**

See 2016-004 for details.

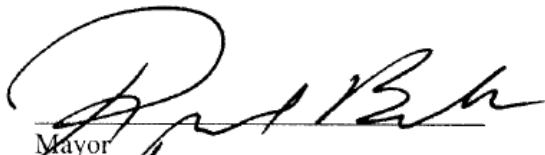
**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**City of Campton, Kentucky**

**For The Fiscal Year Ended  
June 30, 2016**

**CITY OF CAMPTON, KENTUCKY  
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
AND DEVELOPMENT PROGRAM  
June 30, 2016**

The City of Campton, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance and Economic Development Programs were expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



\_\_\_\_\_  
Mayor  
City of Campton, KY