

CITY OF LOUISA, KENTUCKY
FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORTS, AND
SUPPLEMENTAL INFORMATION

June 30, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

The Honorable Teddy Preston, Mayor
Members of the City Council
City of Louisa, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 33-35 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Louisa, Kentucky's basic financial statements. The supplemental and other information and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental and other information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 14, 2014

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	\$ 270,378	\$ 1,358	\$ 271,736	\$ 857,530
Property taxes receivable	96,241	-	96,241	-
Grants receivable	65,100	-	65,100	-
Sanitation fees receivable	94,179	-	94,179	-
Other receivables	300	-	300	-
Accounts receivable	-	-	-	330,819
Unbilled receivables	-	-	-	164,618
Inventory	-	-	-	81,471
Prepaid items	38,925	-	38,925	31,660
Capital assets:				-
Land and construction-in-progress	2,103,367	25,000	2,128,367	787,368
Other capital assets, net of accumulated depreciation	697,552	19,330	716,882	15,650,688
Total Assets	3,366,042	45,688	3,411,730	17,904,154
LIABILITIES				
Cash overdraft	-	-	-	17,478
Accounts payable	182,177	3,425	185,602	64,689
Accrued expenses	23,027	1,295	24,322	39,912
Accrued compensated absences	8,788	-	8,788	25,874
Accrued interest payable	-	-	-	29,333
Customer deposits	-	-	-	30,300
Due to City of Louisa - sanitation fees	-	-	-	100,484
Due to Lawrence County - sewer fees	-	-	-	22,800
Long-term liabilities:				
Loan payable - Construction Fund - to be assumed by W & S	125,974	-	125,974	-
Due within one year	15,961	-	15,961	414,760
Due in more than one year	71,646	-	71,646	7,723,435
Total Liabilities	427,573	4,720	432,293	8,469,065
NET POSITION				
Net investment in capital assets	2,587,338	44,330	2,631,668	8,434,861
Restricted for:				
Debt service	-	-	-	141,901
Capital asset repair and replacement	-	-	-	699,195
Capital projects	-	-	-	10
Special revenue	2,413	-	2,413	-
Lawsuit settlement	-	-	-	8,181
Public safety	30,769	-	30,769	-
Unrestricted	347,949	(3,362)	344,587	150,941
Total Net Position	\$ 2,968,469	\$ 40,968	\$ 3,009,437	\$ 9,435,089

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 265,062	\$ -	\$ -	\$ -	\$ (265,062)	\$ -	\$ (265,062)	\$ -
Public safety	457,158	31,930	1,172	-	(424,056)	-	(424,056)	-
Streets	150,691	-	11,672	-	(139,019)	-	(139,019)	-
Sanitation	357,160	374,990	-	-	17,830	-		-
Youth programs	1,873	-	-	-	(1,873)	-	(1,873)	-
Construction	-	-	-	682,158	682,158	-	682,158	-
Interest on long-term debt	2,693	-	-	-	(2,693)	-	(2,693)	-
Total governmental activities	<u>1,234,637</u>	<u>406,920</u>	<u>12,844</u>	<u>682,158</u>	<u>(132,715)</u>	<u>-</u>	<u>(132,715)</u>	<u>-</u>
Business-type activities:								
Swimming pool	24,459	4,843	-	-	-	(19,616)	(19,616)	-
Total business-type activities	<u>24,459</u>	<u>4,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,616)</u>	<u>(19,616)</u>	<u>-</u>
Total primary government	\$ 1,259,096	\$ 411,763	\$ 12,844	\$ 682,158	(132,715)	(19,616)	(152,331)	-
Component unit:								
Louisa Water and Sewer Commission	<u>\$ 2,600,375</u>	<u>\$ 2,572,745</u>	<u>\$ -</u>	<u>\$ 253,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,316</u>
General revenues:								
Property taxes					299,398	-	299,398	-
Motor vehicle taxes					21,142	-	21,142	-
Insurance premium taxes					351,822	-	351,822	-
Telecommunication taxes					5,725	-	5,725	-
Occupational licenses					13,235	-	13,235	-
Franchise fees					14,064	-	14,064	-
Intergovernmental revenue					167,781	-	167,781	-
Rental income					3,200	-	3,200	-
Fines and forfeits					1,478	-	1,478	-
Interest income					125	-	125	1,257
Gain on disposal of capital assets					5,514	-	5,514	-
Miscellaneous					52,326	-	52,326	-
Transfers:					<u>(14,391)</u>	<u>14,391</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>921,419</u>	<u>14,391</u>	<u>935,810</u>	<u>1,257</u>
Change in net position					788,704	(5,225)	783,479	227,573
Net position - beginning, restated					<u>2,149,765</u>	<u>46,193</u>	<u>2,195,958</u>	<u>9,207,516</u>
Net position - ending					<u>\$ 2,938,469</u>	<u>\$ 40,968</u>	<u>\$ 2,979,437</u>	<u>\$ 9,435,089</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Youth Programs Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 242,325	\$ 25,640	\$ 2,413	\$ 270,378
Receivables:				
Taxes	96,241	-	-	96,241
Grants	27,380	37,720	-	65,100
Sanitation fees	94,179	-	-	94,179
Other	300	-	-	300
Prepaid items	38,925	-	-	38,925
Total Assets	<u>\$ 499,350</u>	<u>\$ 63,360</u>	<u>\$ 2,413</u>	<u>\$ 565,123</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 32,336	\$ 149,841	\$ -	\$ 182,177
Accrued payroll	13,561	-	-	13,561
Accrued payroll taxes	1,865	-	-	1,865
Accrued compensated absences	8,788	-	-	8,788
Accrued retirement	7,601	-	-	7,601
Total Liabilities	<u>64,151</u>	<u>149,841</u>	<u>-</u>	<u>213,992</u>
Fund Balances:				
Restricted for:				
Public safety	30,769	-	-	30,769
Youth programs	-	-	2,413	2,413
Unassigned	404,430	(86,481)	-	317,949
Total Fund Balances	<u>435,199</u>	<u>(86,481)</u>	<u>2,413</u>	<u>351,131</u>
Total Liabilities and Fund Balances	<u>\$ 499,350</u>	<u>\$ 63,360</u>	<u>\$ 2,413</u>	<u>\$ 565,123</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

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Fund Balances - Total Governmental Funds \$ 351,131

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

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

Governmental capital assets	4,450,954
Less: accumulated depreciation	(1,650,035)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(213,581)</u>
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Net Position of Governmental Activities \$ 2,938,469

CITY OF LOUISA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	Youth Programs Fund	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 299,398	\$ -	\$ -	\$ 299,398
Motor vehicle	21,142	-	-	21,142
Insurance premium	351,822	-	-	351,822
Telecommunication	5,725	-	-	5,725
Occupational licenses	13,235	-	-	13,235
Franchise fees	14,064	-	-	14,064
Intergovernmental revenues	155,275	-	-	155,275
Grants	25,350	682,158	-	707,508
Charges for services	406,920	-	-	406,920
Rental income	3,200	-	-	3,200
Fines and forfeits	1,478	-	-	1,478
Interest income	125	-	-	125
Donations	3,981	-	2,400	6,381
Miscellaneous revenues	45,945	-	-	45,945
Total revenues	1,347,660	682,158	2,400	2,032,218
Expenditures:				
Current:				
General government	253,882	-	-	253,882
Public safety	410,135	-	-	410,135
Streets	148,211	-	-	148,211
Sanitation	344,307	-	-	344,307
Youth programs	-	-	1,873	1,873
Debt service:				
Principal retirement	41,524	-	-	41,524
Interest	3,296	-	-	3,296
Capital outlay	52,357	2,167,566	-	2,219,923
Total expenditures	1,253,712	2,167,566	1,873	3,423,151
Excess (deficiency) of revenues over expenditures	93,948	(1,485,408)	527	(1,390,933)
Other financing sources (uses):				
Proceeds from borrowing	30,838	1,531,222	-	1,562,060
Proceeds from sale of capital assets	5,514	-	-	5,514
Transfers In	2,186	-	-	2,186
Transfers Out	(14,391)	(2,186)	-	(16,577)
Total other financing sources (uses)	24,147	1,529,036	-	1,553,183
Net change in fund balances	118,095	43,628	527	162,250
Fund balances - beginning, restated	317,104	(130,109)	1,886	188,881
Fund balances - ending	\$ 435,199	\$ (86,481)	\$ 2,413	\$ 351,131

See accompanying notes to basic financial statements.

CITY OF LOUISA, 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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 162,250

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

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

Capital asset purchases capitalized	2,219,923
Depreciation expense	(73,536)

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable. 603

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The details of these differences in the treatment of long-term debt and related items are as follows:

Loan proceeds	(1,562,060)
Principal paid	<u>41,524</u>

Change in Net Position of Governmental Activities \$ 788,704

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
BUSINESS-TYPE ACTIVITY
JUNE 30, 2013

	<u>Swimming Pool</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,358
Total current assets	<u>1,358</u>
Non-current assets:	
Capital assets:	
Land	25,000
Capital assets, net of depreciation	<u>19,330</u>
Total non-current assets	<u>44,330</u>
Total assets	<u>45,688</u>
LIABILITIES	
Current liabilities:	
Accounts payable	3,425
Accrued payroll	1,222
Accrued payroll taxes	62
Sales tax payable	<u>11</u>
Total current liabilities	<u>4,720</u>
NET POSITION:	
Net investment in capital assets	44,330
Unrestricted	<u>(3,362)</u>
Total net position	<u>\$ 40,968</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 BUSINESS-TYPE ACTIVITY
 YEAR ENDED JUNE 30, 2013

	<u>Swimming Pool</u>
Operating revenues:	
Pool receipts	\$ 4,843
Total operating revenues	4,843
Operating expenses:	
Salaries and wages	10,438
Payroll taxes	958
Repairs and maintenance	2,198
Purchases for resale	2,257
Telephone	844
Utilities	5,064
Taxes and other licenses	187
Depreciation	2,513
Total operating expenses	<u>24,459</u>
Income (loss) before operating transfers	(19,616)
Transfers from General Fund	<u>14,391</u>
Change in net position	(5,225)
Net position, beginning of year	<u>46,193</u>
Net position, end of year	<u>\$ 40,968</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2013

	<u>Swimming Pool</u>
Cash flows from operating activities:	
Cash inflows:	
Payments received from customers	\$ 4,843
Total cash provided	<u>4,843</u>
Cash outflows:	
Payments for salaries and benefits	13,483
Payments to suppliers for goods and services	<u>7,166</u>
Total cash used	<u>20,649</u>
Net cash provided (used) by operating activities	<u>(15,806)</u>
Cash flows from noncapital financing activities:	
Transfers from General Fund	<u>14,391</u>
Net cash provided (used) by noncapital financing activities	<u>14,391</u>
Net cash inflow (outflow) from all activities	(1,415)
Cash and cash equivalents at beginning of period	<u>2,773</u>
Cash and cash equivalents at end of period	<u>\$ 1,358</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (19,616)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,513
Increase (decrease) in:	
Accounts payable	3,425
Other accrued liabilities	<u>(2,128)</u>
Net cash provided (used) by operating activities	<u>\$ (15,806)</u>

See accompanying notes to basic financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Louisa, Kentucky (“City”), operates under a council-mayor form of government. 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. The council members and mayor 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.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibility. Based upon the application of these criteria the Louisa Swimming Pool has been included in the government’s reporting entity and their financial transactions have been blended with the primary government unit. The Louisa Water and Sewer Commission is also considered a component unit of the primary government reporting entity and its financial transactions are presented using the discrete method of presentation.

The Louisa Water and Sewer Commission’s fiscal year end is May 31, 2013, which is different from the City, which is June 30, 2013. The financial position, results of operations, cash flows and other financial information contained in this report as relates to the Louisa Water and Sewer Commission as of May 31, 2013 and the year then ended.

Separate financial statements for the Louisa Water & Sewer Commission can be obtained by contacting the Water & Sewer Commission at the following address:

- Louisa Water & Sewer Commission
213 Ricky Skaggs Blvd.
PO Box 608
Louisa, Kentucky 41230
(606)638-9322

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The City has the following funds:

I. Governmental Fund Types

- A.) The General Fund is the main operating fund of the City. It accounts for financial resources used for public safety (police and fire), streets, sanitation, and general administrative services. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the City.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B.) Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments) that are legally restricted to expenditure for specified purposes. Special revenue funds for the year ended June 30, 2013 are considered nonmajor funds. The Youth Programs Fund was the only special revenue fund.

C.) Capital project funds are used to account for financial resources to be used in the acquisition and construction of major capital facilities. Construction funds for the year ended June 30, 2013 are considered major funds.

II. Proprietary Fund Types (Enterprise Fund)

The Louisa Water and Sewer Commission and the Louisa Swimming Pool account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the general public on a continuing basis is financed through user charges.

The City applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when used is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the City. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.236 per \$100 valuation for property, and \$.20 per \$100 valuation for motor vehicles.

The City also levies an insurance premium tax in the amount of 8% on all insurance premiums within City limits.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Capitalization Policy for the City is as follows:

- Land, land improvement, right of ways (easements) and buildings are capitalized regardless of cost.
- Infrastructure, works of art and historical treasures and intangible assets are capitalized if valued at \$50,000 and above. Infrastructure acquired prior to July 1, 2003 has not been accounted for as allowed by GASB No. 34.
- Equipment is capitalized if valued at \$1,000 and above.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets - Continued

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Other	7-10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Sick pay does not vest with employees. If they don't use it, they lose it.

The estimated current portion of the liability for vested vacation benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. The entire estimated liability is estimated to be current. The amounts attributable to proprietary funds and similar component units are charged to expense and a corresponding liability in the applicable fund or component unit. The estimated liabilities include required salary-related payments.

Budgetary Process

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Process - Continued

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended.

Each budget is prepared and controlled by the City Clerk at the revenue and expenditure level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Purchases of material and supplies, by governmental fund types, are recorded as expenditures when the liability is incurred. Inventories of these materials and supplies are not maintained and recorded as an asset since the amounts are immaterial.

Proprietary fund types maintain inventories, which are stated at cost. Cost is determined on the first-in, first-out (FIFO) basis. The Louisa Swimming Pool did not maintain inventory records since the amounts are immaterial.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated vacation days, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

- Non-spendable – permanently nonspendable by decree of the donor, such as an endowment, or items, which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand.
- Restricted – legally restricted under federal or state law, bond authority, or grantor contract.
- Committed – commitments passed by the board.
- Assigned – funds assigned to management priority including issued encumbrances.
- Unassigned – funds available for future operations.

GASB statement 54 provides that when governments have not established a spending policy, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those classifications could be used.

Encumbrances are not liabilities and, therefore are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in governmental funds balance sheet. There were no open encumbrances at June 30, 2013.

Whenever a budget for the subsequent year is adopted where a portion of existing fund balance is included as a budgetary resource to eliminate a projected excess of expected expenditures over expected revenues, that portion of fund balance is considered assigned. The current year fund balance was not included as a budgetary resource in the subsequent year budget.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the sanitation fund and the Louisa swimming pool.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the City’s total cash and cash equivalents was \$271,736. Cash was secured by \$250,000 of Federal Depository Insurance, with an additional \$300,000 covered by collateral agreements and collateral held by the pledging banks’ trust departments in the City’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

	Bank Balance	Book Balance
Peoples Security Bank	<u>\$ 292,062</u>	\$ 271,405
Cash on hand		<u>331</u>
Total		<u>\$ 271,736</u>
Breakdown per financial statements:		
Governmental funds		\$ 270,378
Proprietary funds		<u>1,358</u>
Total		<u>\$ 271,736</u>

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, consisted of the following:

Governmental Activities

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 386,521	\$ -	\$ -	\$ 386,521
Construction in progress – water & sewer	<u>1,895,990</u>	<u>2,167,566</u>	<u>2,346,710</u>	<u>1,716,846</u>
Total capital assets, not being depreciated	<u>2,282,511</u>	<u>2,167,566</u>	<u>2,346,710</u>	<u>2,103,367</u>
Capital assets, being depreciated:				
Buildings and improvements	836,687	-	-	836,687
Vehicles	1,111,076	37,738	10,907	1,137,907
Equipment	<u>358,374</u>	<u>14,619</u>	<u>-</u>	<u>372,993</u>
Total capital assets being depreciated	2,306,137	52,357	10,907	2,347,587
Less accumulated depreciation for:				
Buildings and improvements	(325,465)	(23,256)	-	(348,721)
Vehicles	(1,018,250)	(32,443)	(10,907)	(1,039,786)
Equipment	<u>(243,691)</u>	<u>(17,837)</u>	<u>-</u>	<u>(261,528)</u>
Total accumulated depreciation	<u>(1,587,406)</u>	<u>(73,536)</u>	<u>(10,907)</u>	<u>(1,650,035)</u>
Total capital assets being depreciated, net	<u>718,731</u>	<u>(21,179)</u>	<u>-</u>	<u>697,552</u>
Total capital assets, net	<u>\$3,001,242</u>	<u>\$2,146,387</u>	<u>\$2,346,710</u>	<u>\$2,800,919</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 11,180
Public safety	47,023
Streets	2,480
Sanitation	<u>12,853</u>
Total	<u>\$ 73,536</u>

NOTE D - CAPITAL ASSETS - CONTINUED

Business-Type Activities

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Swimming pool land and land improvements	\$ 25,000	\$ -	\$ -	\$ 25,000
Total capital assets, not being depreciated	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Capital assets, being depreciated:				
Swimming pool buildings	41,151	-	-	41,151
Swimming pool equipment	<u>119,769</u>	<u>-</u>	<u>-</u>	<u>119,769</u>
Total capital assets being depreciated	160,920	-	-	160,920
Less accumulated depreciation for:				
Swimming pool buildings	(35,255)	(551)	-	(35,806)
Swimming pool equipment	<u>(103,822)</u>	<u>(19,961)</u>	<u>-</u>	<u>(105,783)</u>
Total accumulated depreciation	<u>(139,077)</u>	<u>(2,512)</u>	<u>-</u>	<u>(141,589)</u>
Total capital assets being depreciated, net	<u>21,843</u>	<u>(2,512)</u>	<u>-</u>	<u>19,331</u>
Total capital assets, net	<u>\$ 46,843</u>	<u>\$ (2,512)</u>	<u>\$ -</u>	<u>\$ 44,331</u>

NOTE E - LONG - TERM DEBT

The City's long term debt at June 30, 2013 consisted of the following:

- 1) On May 3, 2008, the City borrowed \$100,000 from the Kentucky League of Cities for the City garage lot. The agreement provides for 181 monthly payments of variable amounts to be made beginning June 1, 2007 with final payment due on June 1, 2022. The debt bears variable interest with interest computed at .187% at June 15, 2013. The average payment is around \$700 per month.
- 2) On November 14, 2012, the City borrowed \$30,838 from Magnolia Bank for a 2013 Ford Interceptor police vehicle. The agreement provides for 3 annual payments of \$10,887 to be made beginning December 1, 2012 with final payment due on December 1, 2014. The debt bears interest at 6.04%.

	<u>Amount</u> <u>Outstanding</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount</u> <u>Outstanding</u> <u>6/30/2013</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Peoples Exchange Bank (fire station #2)	\$ 18,257	\$ -	\$ (18,257)	\$ -	\$ -
State Fire Commission (fire training facility)	6,516	-	(6,516)	-	-
Kentucky League of Cities (city garage lot)	73,520	-	(5,961)	67,559	6,230
Magnolia Bank (2013 Ford Interceptor)	<u>-</u>	<u>30,838</u>	<u>(10,790)</u>	<u>20,048</u>	<u>9,731</u>
Long-Term Debt	<u>\$ 98,293</u>	<u>\$ 30,838</u>	<u>\$ (41,524)</u>	<u>\$ 87,607</u>	<u>\$ 15,961</u>

NOTE E – LONG – TERM DEBT - CONTINUED

Principal and interest payments to be made on all long-term debt at June 30, 2013, for each of the next five years and thereafter are as follows:

<u>Year Ending</u> <u>6/30</u>	<u>Notes</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	<u>Total</u>
2014	\$ 15,961	\$ 15,961	\$ 2,934	\$ 18,895
2015	16,835	16,835	2,273	19,108
2016	6,812	6,812	1,626	8,438
2017	7,132	7,132	1,545	8,677
2018	7,456	7,456	1,460	8,916
2019-2022	<u>33,411</u>	<u>33,411</u>	<u>4,916</u>	<u>38,327</u>
	<u>\$ 87,607</u>	<u>\$ 87,607</u>	<u>\$ 14,754</u>	<u>\$102,361</u>

NOTE F – RETIREMENT PLANS

The City has elected to participate in the County Employee’s Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost sharing, multiple-employer defined benefit plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits.

Benefit contributions and provisions are established by statute. Funding for the plan is provided through payroll withholding of 5% with an additional 1% for health insurance for employees who began participating on 09/01/08 or after and a city contribution of 19.55% of the employees’ total compensation subject to contribution. The City contributed the amount of \$75,174 during the year ended June 30, 2013 equal to 19.55% of the retirement wages. Contributions by employees for the year ended June 30, 2013 was withholding of \$20,533. The City payroll for the year ended June 30, 2013 was \$418,522.

Benefits fully vest on reaching five years of service. Benefits will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Historical trend information pertaining to CERS’ progress in accumulating sufficient assets to pay benefits due is presented in the Kentucky Retirement Systems’ annual financial report which is a matter of public record. This report can be obtained by contacting the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Ky 40601, Phone: (502) 564-4646.

NOTE G – COMMITMENTS

The City has several construction projects in progress. There is the Rt 32 utility relocation project and the sewer manhole rehab/repair project. The Rt 32 project is funded by a \$1,593,680 Kentucky Transportation Cabinet Utility Relocation Keep Cost Agreement. The sewer project is funded by a \$1,399,237 KIA loan.

NOTE H – CONTINGENCIES

The City receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – LITIGATION

Legal counsel for the City has stated there is no pending litigation against the City.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – TRANSACTIONS WITH LOUISA WATER AND SEWER COMMISSION

In accordance with the criteria established by the Governmental Accounting Standards Board for defining a reporting entity, the Louisa Water and Sewer Commission is considered a component unit of the City of Louisa.

The Louisa Water and Sewer Commission administers the billing and collection of sanitation fees for the City of Louisa. The sanitation fee is included on a combined customer statement along with charges for water and sewer fees. The outstanding sanitation fees are included in Customer Accounts Receivable and the amounts due to the City of Louisa are listed as current liability under Due to City of Louisa. None of these transactions are included in the Louisa Water and Sewer Commissions "Statement of Operations."

The amounts due to the City of Louisa for collected and uncollected sanitation fees at June 30, 2013 was \$94,179.

NOTE L – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency).

NOTE M – DEFICIT OPERATING BALANCES

The Louisa Swimming Pool has a deficit fund balance of \$3,362 at 06/30/2013.

The Construction Fund has a deficit fund balance of \$86,481 at 06/30/2013. The deficit will be eliminated with future grant and loan proceeds.

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Swimming Pool	Expenses	\$14,391
Capital Outlay	Construction	General	Reimbursement	2,186

NOTE O – RESTATEMENT OF PRIOR PERIOD NET POSITION

The City implemented GASB Statement No. 66 *Technical Corrections-2012-an amendment to GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) for the fiscal year ending June 30, 2013.

Implementation of GASB 66 did not have any financial reporting impact on the City for fiscal year ended June 30, 2013. Implementation of GASB 63 required the reclassification of Net Assets to Net Position and, if applicable; it also required reclassification of deferred outflows and deferred inflows into new categories called Deferred Outflows of Resources and Deferred Inflows of Resources.

Implementation of GASB 65 recognizes cost of loan fees as an expense. The prior year restatement for fiscal year ended June 30, 2012 is as follows for \$1,452 of loan fees previously recorded as prepaid and \$48,191 of unamortized bond issue costs:

Governmental funds

	<u>Fund Balance As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>Fund Balance As Restated</u>
General Fund	<u>\$318,556</u>	<u>(\$1,452)</u>	<u>\$317,104</u>

Government wide

	<u>Net Position As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>Net Position As Restated</u>
Governmental Activities	<u>\$2,151,217</u>	<u>(\$1,452)</u>	<u>\$2,149,765</u>
Component Unit	<u>\$9,255,707</u>	<u>(\$48,191)</u>	<u>\$9,207,516</u>

NOTE P – SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Louisa's unfunded liability would be approximately \$1,070,000, based on the 2011 actuarial analysis. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.

Louisa Water and Sewer Commission

The Louisa Water and Sewer Commission was abolished on September 24, 2013. It is now operated as a separate department under control of the City of Louisa, Kentucky.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

The Honorable Teddy Preston, Mayor
Members of the City Council
City of Louisa, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Louisa, Kentucky's basic financial statements and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Louisa, 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 Louisa, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Louisa, 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 schedule of findings and questioned costs, 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 deficiency described in the accompanying schedule of findings and questioned costs as 2013-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Louisa, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-2.

City of Louisa, Kentucky's Response to Findings

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

Purpose of this Report

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 14, 2014



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Honorable Teddy Preston, Mayor
Members of the City Council
City of Louisa, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Louisa, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Louisa, Kentucky's major federal programs for the year ended June 30, 2013. The City of Louisa, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Louisa, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Louisa, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Louisa, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Louisa, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Louisa, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Louisa, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 14, 2014

**CITY OF LOUISA, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued *unmodified*:

Internal control over financial reporting:

- Material weakness(es) identified? X yes ___no
- Significant deficiency(ies) identified? ___yes X none reported

Noncompliance material to financial statements noted? X yes ___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes X no
- Significant deficiency(ies) identified? ___yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___yes X no

The programs tested as major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>

Auditee qualified as low-risk auditee? ___yes X no

FINDINGS - FINANCIAL STATEMENTS AUDIT

2013 – 1 Segregation of Duties

Condition: Presently, the City has an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The City should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Recommendation: Mayor and City Council should continue its strong oversight.

Management Comment: Management of the City concurs with the finding and will continue strong oversight.

2013 - 2 Publication of Financial Statements

Condition: Financial statements for the year ended 06/30/13 were not published in the newspaper within ninety days after year-end per KRS 424.220.

Criteria: The Kentucky Revised Statutes set forth mandatory requirements for cities to follow.

Cause of Condition: Lack of oversight by management to insure that the financial statements are published.

Recommendation: The City Clerk should make every effort to insure that all required financial statements, budgets, legal notices, etc. are published in accordance with the Kentucky Revised Statutes.

Management Comment: The City will make every effort to comply with this requirement in the future.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**CITY OF LOUISA, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

There were no findings and recommendations for the year ended June 30, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 273,600	\$ 273,600	\$ 299,398	\$ 25,798
Motor vehicle tax	17,000	17,000	21,142	4,142
Taxes on insurance premiums	360,000	360,000	351,822	(8,178)
Occupational licenses	6,500	12,485	13,235	750
Franchise fees	28,200	30,224	14,064	(16,160)
Telecommunication tax	5,500	5,500	5,725	225
Law enforcement fees	10,000	10,000	9,370	(630)
Municipal road aid	50,000	50,000	49,750	(250)
Police incentive	17,248	17,248	15,641	(1,607)
Fire state aid	-	1,538	8,250	6,712
Coal and mineral severance	117,322	91,500	72,264	(19,236)
Other grants	24,178	67,184	25,350	(41,834)
Sanitation fees	360,000	360,000	374,990	14,990
Fire district contract	35,000	35,000	29,480	(5,520)
Arrest fees	5,000	5,000	2,450	(2,550)
Interest	100	100	125	25
Rent	3,000	3,000	3,200	200
Fines and forfeits	200	825	1,478	653
Donations	1,500	2,500	3,981	1,481
Other receipts	21,000	52,979	45,945	(7,034)
Total Revenues	<u>1,335,348</u>	<u>1,395,683</u>	<u>1,347,660</u>	<u>(48,023)</u>
Expenditures:				
General government:				
Salaries and wages	63,676	63,676	67,124	(3,448)
Payroll taxes	5,191	5,191	5,381	(190)
Retirement	12,449	12,449	11,108	1,341
Life and health insurance	41,885	41,885	41,600	285
Insurance	15,400	15,400	12,502	2,898
Advertising and printing	2,500	3,500	4,047	(547)
Professional fees	21,000	21,000	20,477	523
Repairs and maintenance	1,000	1,000	645	355
Utilities and communications	13,700	13,700	10,532	3,168
Other contractual services	7,600	7,600	4,765	2,835
Community center expenses	6,000	11,000	5,954	5,046
Materials and supplies	16,750	16,750	13,165	3,585
Other expenses	72,000	87,059	56,582	30,477
Debt service:				
Interest expense	-	-	98	(98)
Principal retirement	-	-	10,790	(10,790)
Total General Government	<u>279,151</u>	<u>300,210</u>	<u>264,770</u>	<u>35,440</u>

CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Salaries and wages	171,143	176,655	166,591	10,064
Payroll taxes	12,425	12,425	12,670	(245)
Retirement	29,836	29,836	31,674	(1,838)
Life and health insurance	52,551	52,551	36,506	16,045
Insurance	14,000	14,000	13,988	12
Advertising and printing	250	250	176	74
Professional fees	250	250	233	17
Repairs and maintenance	9,500	9,500	2,994	6,506
Utilities and communications	12,000	12,000	10,636	1,364
Other contractual services	800	800	-	800
Materials and supplies	29,900	31,900	20,282	11,618
Other expenses	11,574	12,127	12,536	(409)
Capital outlays	18,000	18,000	39,774	(21,774)
Total Police	<u>362,229</u>	<u>370,294</u>	<u>348,060</u>	<u>22,234</u>
Fire:				
Salaries and wages	18,193	18,193	18,106	87
Payroll taxes	1,462	1,462	1,414	48
Retirement	3,557	3,557	3,495	62
Life and health insurance	115	115	21	94
Insurance	20,735	20,735	19,973	762
Repairs and maintenance	9,000	9,000	4,502	4,498
Utilities and communications	16,000	16,000	19,849	(3,849)
Other contractual services	800	800	630	170
Materials and supplies	25,500	25,500	13,498	12,002
Other expenses	42,660	46,384	20,360	26,024
Debt service:				
Interest expense	-	-	916	(916)
Principal retirement	-	-	24,772	(24,772)
Capital outlays	2,000	10,000	12,584	(2,584)
Total Fire	<u>140,022</u>	<u>151,746</u>	<u>140,120</u>	<u>11,626</u>
Street:				
Salaries and wages	64,308	64,308	55,300	9,008
Payroll taxes	5,294	5,294	4,301	993
Retirement	12,572	12,572	9,705	2,867
Life and health insurance	21,136	21,136	12,258	8,878
Insurance	9,200	9,200	7,460	1,740
Repairs and maintenance	5,000	5,000	1,509	3,491
Utilities and communications	52,600	52,600	38,976	13,624
Other contractual services	3,000	3,000	1,956	1,044
Materials and supplies	18,050	18,699	14,740	3,959

CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Other expenses	11,300	11,300	2,006	9,294
Debt service:				
Interest expense	-	-	1,141	(1,141)
Principal retirement	-	-	2,981	(2,981)
Total Street	<u>202,460</u>	<u>203,109</u>	<u>152,333</u>	<u>50,776</u>
Sanitation:				
Salaries and wages	92,734	92,734	100,963	(8,229)
Payroll taxes	7,404	7,404	7,715	(311)
Retirement	18,130	18,130	19,192	(1,062)
Life and health insurance	31,646	31,646	31,062	584
Insurance	22,500	22,500	21,731	769
Repairs and maintenance	25,000	25,000	30,543	(5,543)
Utilities and communications	1,500	1,500	954	546
Other contractual services	75,000	75,000	67,003	7,997
Materials and supplies	45,800	45,800	42,695	3,105
Other expenses	21,300	37,300	22,449	14,851
Debt service:				
Interest expense	-	-	1,141	(1,141)
Principal retirement	-	-	2,981	(2,981)
Total Sanitation	<u>341,014</u>	<u>357,014</u>	<u>348,429</u>	<u>8,585</u>
Total Expenditures	<u>1,324,876</u>	<u>1,382,373</u>	<u>1,253,712</u>	<u>128,661</u>
Other Financing Sources/(Uses):				
Proceeds from borrowing	-	-	30,838	30,838
Proceeds from sale of capital assets	-	-	5,514	5,514
Transfers in	-	2,186	2,186	-
Transfers out	(10,000)	(13,000)	(14,391)	(1,391)
Total Other Financing Uses	<u>(10,000)</u>	<u>(10,814)</u>	<u>24,147</u>	<u>34,961</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ 472</u>	<u>\$ 2,496</u>	118,095	<u>\$ 115,599</u>
Fund balance - beginning, restated			<u>317,104</u>	
Fund balance - ending			<u>\$ 435,199</u>	

SUPPLEMENTAL AND OTHER INFORMATION

CITY OF LOUISA, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	A11-02	\$ 365,782
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	F10-03	<u>566,714</u>
Total U.S. Environmental Protection Agency			<u>932,496</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	OP-12-30	517
State and Community Highway Safety	20.600	OP-13-11	<u>1,284</u>
Total U.S. Department of Transportation			<u>1,801</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 934,297</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LOUISA, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of Louisa, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Louisa, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Louisa, Kentucky.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

CITY OF LOUISA, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2013

CITY COUNCIL

<u>NAME</u>	<u>TERM EXPIRES</u>
Raymond Dixon	December 31, 2014
Gloria Johnson	December 31, 2014
Tom Parsons	December 31, 2014
Rita Rose	December 31, 2014
Lisa Schaeffer	December 31, 2014
Bradley Stark	December 31, 2014

ADMINISTRATIVE PERSONNEL

<u>NAME</u>	
Teddy Preston	Mayor
Kathy Compton	City Clerk

