

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

June 30, 2018



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

The Honorable Harold Slone, Mayor
Members of the City Council
City of Louisa, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Louisa, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky, as of June 30, 2018, 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

Implementation of GASB Statement No. 75

As described in Note Q, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Accordingly, beginning net position of the governmental activities and the business-type activities were restated. Our opinion is not modified with respect to this matter.

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 39-42 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 43 and 44, respectively, and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions, on pages 46 and 47, respectively, 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 schedule of operating expenses—proprietary funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expenses—proprietary funds is the responsibility of management and was derived from and relate 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 schedule of operating expenses—proprietary funds is 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 February 15, 2019 on our consideration of the City of Louisa, 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 the effectiveness of the City of Louisa's 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 Louisa, Kentucky's internal control over financial reporting and compliance.

Wells o Company, PSC

Certified Public Accountants
Paintsville, Kentucky
February 15, 2019

**CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 319,589	\$ 1,209,956	\$ 1,529,545
Taxes receivable	109,713	-	109,713
Grants receivable	114,867	-	114,867
Sanitation fees receivable	43,145	-	43,145
Other receivables	330	-	330
Accounts receivable	-	384,359	384,359
Unbilled receivables	-	128,055	128,055
Inventory	-	89,860	89,860
Prepaid items	33,305	26,492	59,797
Capital assets:			
Land and construction-in-progress	1,005,305	1,800,497	2,805,802
Other capital assets, net of accumulated depreciation	1,771,298	17,489,515	19,260,813
Total Assets	3,397,552	21,128,734	24,526,286
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions & OPEB	455,735	402,901	858,636
LIABILITIES			
Accounts payable	109,828	87,296	197,124
Accrued expenses	28,847	53,324	82,171
Accrued compensated absences	17,245	34,661	51,906
Accrued interest payable	4,627	59,591	64,218
Customer deposits	-	60,750	60,750
Due to City of Louisa - sanitation fees	-	43,145	43,145
Long-term liabilities:			
Net pension liability	1,175,403	1,151,346	2,326,749
Net OPEB liability	403,697	395,434	799,131
Due within one year	106,309	620,527	726,836
Due in more than one year	667,102	7,214,861	7,881,963
Total Liabilities	2,513,058	9,720,935	12,233,993
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions & OPEB	97,558	113,965	211,523
NET POSITION			
Net investment in capital assets	2,003,192	11,454,624	13,457,816
Restricted for:			
Debt service	10,240	195,861	206,101
Capital asset repair and replacement	-	968,714	968,714
Special revenue	5,703	-	5,703
Public safety	47,460	-	47,460
Unrestricted (deficit)	(823,924)	(922,464)	(1,746,388)
Total Net Position	\$ 1,242,671	\$ 11,696,735	\$ 12,939,406

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 272,901	\$ -	\$ 1,250	\$ 88,974	\$ (182,677)	\$ -	\$ (182,677)
Public safety	675,410	42,420	1,419	124,667	(506,904)	-	(506,904)
Streets	313,403	-	-	13,000	(300,403)	-	(300,403)
Sanitation	380,342	376,303	-	-	(4,039)	-	(4,039)
Alcohol Beverage Control	77,145	-	-	-	(77,145)	-	(77,145)
Youth programs	1,734	-	-	-	(1,734)	-	(1,734)
Construction	-	-	-	74,990	74,990	-	74,990
Interest on long-term debt	21,715	-	-	-	(21,715)	-	(21,715)
Total governmental activities	1,742,650	418,723	2,669	301,631	(1,019,627)	-	(1,019,627)
Business-type activities:							
Water and sewer	2,982,995	2,918,635	-	-	-	(64,360)	(64,360)
Swimming pool	43,740	37,215	-	-	-	(6,525)	(6,525)
Total business-type activities	3,026,735	2,955,850	-	-	-	(70,885)	(70,885)
Total primary government	\$ 4,769,385	\$ 3,374,573	\$ 2,669	\$ 301,631	(1,019,627)	(70,885)	(1,090,512)
General revenues:							
Property taxes					367,566	-	367,566
Motor vehicle taxes					26,592	-	26,592
Insurance premium taxes					361,113	-	361,113
Telecommunication taxes					5,729	-	5,729
Occupational licenses					12,138	-	12,138
Franchise fees					56,996	-	56,996
ABC fees					106,463	-	106,463
Intergovernmental revenue					153,833	-	153,833
Rental income					5,276	-	5,276
Interest income					353	1,861	2,214
Gain on disposal of capital assets					8,570	-	8,570
Insurance proceeds					2,385	-	2,385
Miscellaneous					108,439	9,100	117,539
Transfers:					(8,755)	8,755	-
Total general revenues and transfers					1,206,698	19,716	1,226,414
Change in net position					187,071	(51,169)	135,902
Net position - beginning, restated					1,055,600	11,747,904	12,803,504
Net position - ending					\$ 1,242,671	\$ 11,696,735	\$ 12,939,406

See accompanying notes to basic financial statements.

**CITY OF LOUISA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Youth Programs Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 313,886	\$ -	\$ 5,703	\$ 319,589
Receivables:				
Taxes	109,713	-	-	109,713
Grants	39,877	74,990	-	114,867
Sanitation fees	43,145	-	-	43,145
Other	330	-	-	330
Prepaid items	33,305	-	-	33,305
Total Assets	<u>\$ 540,256</u>	<u>\$ 74,990</u>	<u>\$ 5,703</u>	<u>\$ 620,949</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 20,814	\$ 89,014	\$ -	\$ 109,828
Accrued payroll	13,916	-	-	13,916
Accrued payroll taxes	2,233	-	-	2,233
Accrued compensated absences	17,245	-	-	17,245
Other accrued liabilities	10,165	-	-	10,165
Total Liabilities	<u>64,373</u>	<u>89,014</u>	<u>-</u>	<u>153,387</u>
Fund Balances:				
Restricted for:				
Public safety	47,460	-	-	47,460
Youth programs	-	-	5,703	5,703
Debt service	10,240	-	-	10,240
Unassigned	418,183	(14,024)	-	404,159
Total Fund Balances	<u>475,883</u>	<u>(14,024)</u>	<u>5,703</u>	<u>467,562</u>
Total Liabilities and Fund Balances	<u>\$ 540,256</u>	<u>\$ 74,990</u>	<u>\$ 5,703</u>	<u>\$ 620,949</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, 2018**

Fund Balances - Total Governmental Funds **\$ 467,562**

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	4,754,755
Less: accumulated depreciation	(1,978,152)

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	(4,627)
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Pension contributions after measurement date are reported as a deferred outflow of resources:	97,310
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Net pension & net OPEB liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(1,579,100)
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Other OPEB related accruals	(2,533)
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Pension & OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore are not reported in the governmental funds, as follows:

Deferred pension & OPEB outflows of resources	358,425
Deferred pension & OPEB inflows of resources	(97,558)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	<u>(773,411)</u>
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Net Position of Governmental Activities	<u><u>\$ 1,242,671</u></u>
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See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects Fund	Youth Programs Fund	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 367,566	\$ -	\$ -	\$ 367,566
Motor vehicle	26,592	-	-	26,592
Insurance premium	361,113	-	-	361,113
Telecommunication	5,729	-	-	5,729
Occupational licenses	12,138	-	-	12,138
Franchise fees	56,996	-	-	56,996
ABC fees	106,463	-	-	106,463
Intergovernmental revenues	153,833	-	-	153,833
Grants	229,310	74,990	-	304,300
Charges for services	418,723	-	-	418,723
Rental income	5,276	-	-	5,276
Interest income	353	-	-	353
Donations	55,011	-	982	55,993
Miscellaneous revenues	53,035	-	-	53,035
Total revenues	1,852,138	74,990	982	1,928,110
Expenditures:				
Current:				
General government	237,968	-	-	237,968
Public safety	508,922	-	-	508,922
Streets	268,220	-	-	268,220
Sanitation	316,297	-	-	316,297
Alcohol beverage control	67,032	-	-	67,032
Youth programs	-	-	1,734	1,734
Debt service:				
Interest	17,088	-	-	17,088
Principal retirement	101,289	-	-	101,289
Capital outlay	841,150	74,990	-	916,140
Total expenditures	2,357,966	74,990	1,734	2,434,690
Excess (deficiency) of revenues over expenditures	(505,828)	-	(752)	(506,580)
Other financing sources (uses):				
Proceeds from borrowing	437,539	-	-	437,539
Proceeds from insurance	20,441	-	-	20,441
Transfers In	-	-	-	-
Transfers Out	(8,755)	-	-	(8,755)
Total other financing sources (uses)	449,225	-	-	449,225
Net change in fund balances	(56,603)	-	(752)	(57,355)
Fund balances - beginning	532,486	(14,024)	6,455	524,917
Fund balances - ending	\$ 475,883	\$ (14,024)	\$ 5,703	\$ 467,562

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, 2018**

Net Change in Fund Balances - Total Governmental Funds - \$ (57,355)

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	916,140
Depreciation expense	(154,718)

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. (4,627)

The net effect of various miscellaneous transactions involving capital assets: (10,075)

Changes in pension expense are reported only in the statement of activities (166,044)

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	(437,539)
Principal paid	<u>101,289</u>

Change in Net Position of Governmental Activities \$ 187,071

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 34,290	\$ 11,091	\$ 45,381
Customer accounts receivable	384,359	-	384,359
Unbilled receivables	128,055	-	128,055
Inventory	89,860	-	89,860
Prepaid items	26,492	-	26,492
Total current assets	663,056	11,091	674,147
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	1,164,575	-	1,164,575
Capital assets:			
Land	177,452	25,000	202,452
Construction work in progress	1,598,045	-	1,598,045
Capital assets, net of depreciation	17,465,595	23,920	17,489,515
Total non-current assets	20,405,667	48,920	20,454,587
Total assets	21,068,723	60,011	21,128,734
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions	295,113		295,113
Deferred outflows related to OPEB	107,788	-	107,788
Total deferred outflows of resources	402,901	-	402,901
LIABILITIES			
Current liabilities:			
Accounts payable	85,870	1,426	87,296
Compensated absences	34,661	-	34,661
Accrued interest payable	59,591	-	59,591
Other accrued liabilities	49,540	3,784	53,324
Customer deposits	60,750	-	60,750
Due to City of Louisa - sanitation fees	43,145	-	43,145
Due to Lawrence County - sewer fees	-	-	-
Total current liabilities	333,557	5,210	338,767
Payable from restricted assets:			
Current portion of bonds and notes payable	620,527	-	620,527
Total liabilities payable from restricted assets	620,527	-	620,527

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2018

Business-type Activities - Enterprise Funds

	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Totals</u>
Long-term liabilities:			
Net pension liability	1,151,346	-	1,151,346
Net OPEB liability	395,434	-	395,434
Construction advances	142,242	-	142,242
Bonds and notes payable	7,693,146	-	7,693,146
	<u>9,382,168</u>	<u>-</u>	<u>9,382,168</u>
Less current portion	(620,527)	-	(620,527)
	<u>8,761,641</u>	<u>-</u>	<u>8,761,641</u>
Total long-term liabilities	<u>8,761,641</u>	<u>-</u>	<u>8,761,641</u>
Total liabilities	<u>9,715,725</u>	<u>5,210</u>	<u>9,720,935</u>
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions	93,261	-	93,261
Deferred inflows related to OPEB	20,704	-	20,704
	<u>113,965</u>	<u>-</u>	<u>113,965</u>
Total deferred inflows of resources	<u>113,965</u>	<u>-</u>	<u>113,965</u>
NET POSITION			
Net investment in capital assets	11,405,704	48,920	11,454,624
Restricted			
Debt service	195,861	-	195,861
Capital asset repair and replacement	968,714	-	968,714
Unrestricted	(928,345)	5,881	(922,464)
	<u>11,641,934</u>	<u>54,801</u>	<u>11,696,735</u>
Total net position	<u>\$ 11,641,934</u>	<u>\$ 54,801</u>	<u>\$ 11,696,735</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Operating revenues:			
Water revenues	\$ 1,820,783	\$ -	\$ 1,820,783
Sewer revenues	989,262	-	989,262
Pool receipts	-	37,215	37,215
Other operating revenues	108,590	9,100	117,690
Total operating revenues	2,918,635	46,315	2,964,950
Operating expenses:			
Water	1,903,553	-	1,903,553
Sewer	902,928	-	902,928
Swimming Pool	-	43,740	43,740
Total operating expenses	2,806,481	43,740	2,850,221
Operating income (loss)	112,154	2,575	114,729
Non-operating revenues (expenses):			
Interest income	1,861	-	1,861
Interest expense	(176,514)	-	(176,514)
Total non-operating revenues (expenses)	(174,653)	-	(174,653)
Income (loss) before contributions and transfers	(62,499)	2,575	(59,924)
Capital assets transfer in	-	-	-
Transfers from General Fund	-	8,755	8,755
Total contributions and transfers	-	8,755	8,755
Change in net position	(62,499)	11,330	(51,169)
Net position, beginning of year, restated	11,704,433	43,471	11,747,904
Net position, end of year	\$ 11,641,934	\$ 54,801	\$ 11,696,735

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Cash flows from operating activities:			
Cash inflows:			
Payments received from customers	\$ 2,920,946	\$ 46,315	\$ 2,967,261
Total cash provided	<u>2,920,946</u>	<u>46,315</u>	<u>2,967,261</u>
Cash outflows:			
Payments for salaries and benefits	746,241	17,587	763,828
Payments to suppliers for goods and services	1,401,412	22,504	1,423,916
Total cash used	<u>2,147,653</u>	<u>40,091</u>	<u>2,187,744</u>
Net cash provided (used) by operating activities	<u>773,293</u>	<u>6,224</u>	<u>779,517</u>
Cash flows from noncapital financing activities:			
Transfers from General Fund	-	8,755	8,755
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>8,755</u>	<u>8,755</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,598,545)	(6,553)	(1,605,098)
Principal payments on debt	(595,380)	-	(595,380)
Proceeds from borrowings	1,743,753	-	-
Interest paid on long-term debt	(150,272)	-	(150,272)
Net cash provided (used) by capital and related financing activities	<u>(600,444)</u>	<u>(6,553)</u>	<u>(606,997)</u>
Cash flows from investing activities:			
Interest received	1,861	-	1,861
Net cash provided (used) by investing activities	<u>1,861</u>	<u>-</u>	<u>1,861</u>
Net cash inflow (outflow) from all activities	174,710	8,426	183,136
Cash and cash equivalents at beginning of period	<u>1,024,155</u>	<u>2,665</u>	<u>1,026,820</u>
Cash and cash equivalents at end of period	<u>\$ 1,198,865</u>	<u>\$ 11,091</u>	<u>\$ 1,209,956</u>

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Reconciliation of utility operating income to net cash provided by operating activities:			
Operating income	\$ 112,154	\$ 2,575	\$ 114,729
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	602,174	2,517	604,691
(Increase) decrease in:			
Customer accounts receivable	(41,559)	-	(41,559)
Unbilled revenue	33,820	-	33,820
Inventory	(3,079)	-	(3,079)
Other assets and deferred outflows	(152,347)	-	(152,347)
Increase (decrease) in:			
Accounts payable	9,081	1,072	10,153
Other liabilities and deferred inflows	7,527	60	7,587
Net pension and OPEB liability	205,522	-	205,522
	<u>\$ 773,293</u>	<u>\$ 6,224</u>	<u>\$ 779,517</u>
Net cash provided (used) by operating activities			
Schedule of cash and cash equivalents:			
Beginning of period:			
Unrestricted cash and cash equivalents	\$ 74,580	\$ 2,665	\$ 77,245
Restricted cash and cash equivalents	949,575	-	949,575
	<u>\$ 1,024,155</u>	<u>\$ 2,665</u>	<u>\$ 1,026,820</u>
End of period:			
Unrestricted cash and cash equivalents	\$ 34,290	\$ 11,091	\$ 45,381
Restricted cash and cash equivalents	1,164,575	-	1,164,575
	<u>\$ 1,198,865</u>	<u>\$ 11,091</u>	<u>\$ 1,209,956</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 and Louisa Water and Sewer have been included in the government’s reporting entity and their financial transactions have been blended with the primary government unit.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, alcohol beverage control, 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.
- 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, 2018 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, 2018 are considered major funds.

II. Proprietary Fund Types (Enterprise Fund)

Louisa Water and Sewer 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2018, to finance the General Fund operations were \$.237 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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:

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Fund Balances

As of June 30, 2018, 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, 2018.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has deferred outflows of resources that relate to pension plan and OPEB reporting, see Note F and Note G.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has deferred inflows of resources that relate to pension plan and OPEB reporting, see Note F and Note G.

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 \$1,529,545. Cash was secured by \$889,155 of Federal Depository Insurance, with an additional \$733,541 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.

	<u>Bank Balance</u>	<u>Book Balance</u>
Bank	\$ 1,622,696	\$ 1,528,568
Cash on hand		<u>977</u>
Total		<u>\$ 1,529,545</u>
Breakdown per financial statements:		
Governmental funds		\$ 319,589
Proprietary funds		<u>1,209,956</u>
Total		<u>\$ 1,529,545</u>

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, consisted of the following:

Governmental Activities

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 391,118	\$ 145,000	\$ -	\$ 536,118
Construction in progress – water & sewer	<u>394,197</u>	<u>74,990</u>	<u>-</u>	<u>469,187</u>
Total capital assets, not being depreciated	<u>785,315</u>	<u>219,990</u>	<u>-</u>	<u>1,005,305</u>
Capital assets, being depreciated:				
Buildings and improvements	836,687	361,818	-	1,198,505
Infrastructure (streets)	223,902	92,100	-	316,002
Vehicles	1,609,030	58,811	38,716	1,629,125
Equipment	<u>422,397</u>	<u>183,421</u>	<u>-</u>	<u>605,818</u>
Total capital assets being depreciated	3,092,016	696,150	38,716	3,749,450
Less accumulated depreciation for:				
Buildings and improvements	(440,138)	(24,506)	-	(464,644)
Infrastructure (streets)	(12,119)	(8,798)	-	(20,917)
Vehicles	(1,059,517)	(89,861)	(28,641)	(1,120,737)
Equipment	<u>(340,301)</u>	<u>(31,553)</u>	<u>-</u>	<u>(371,854)</u>
Total accumulated depreciation	<u>(1,852,075)</u>	<u>(154,718)</u>	<u>(28,641)</u>	<u>(1,978,152)</u>
Total capital assets being depreciated, net	<u>1,239,941</u>	<u>541,432</u>	<u>10,075</u>	<u>1,771,298</u>
Total capital assets, net	<u>\$2,025,256</u>	<u>\$ 761,422</u>	<u>\$ 10,075</u>	<u>\$2,776,603</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to governmental functions as follows:

General government	\$ 13,431
Public safety	91,420
Streets	18,400
Sanitation	31,467
	<u>\$ 154,718</u>

Business-Type Activities

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 202,452	\$ -	\$ -	\$ 202,452
Construction in progress	<u>-</u>	<u>1,598,045</u>	<u>-</u>	<u>1,598,045</u>
Total capital assets, not being depreciated	<u>202,452</u>	<u>1,598,045</u>	<u>-</u>	<u>1,800,497</u>
Capital assets, being depreciated:				
Water plant and equipment	17,014,678	-	-	17,014,678
Sewer plant and equipment	9,833,480	200,925	-	10,034,405
Swimming pool buildings	45,136	-	-	45,136
Swimming pool equipment	126,714	6,553	-	133,267
Office equipment	105,540	-	-	105,540
Trucks and equipment	<u>515,338</u>	<u>-</u>	<u>-</u>	<u>515,338</u>
Total capital assets being depreciated	27,640,886	207,478	-	27,848,364
Less accumulated depreciation for:				
Water plant and equipment	(5,011,914)	(332,395)	-	(5,344,309)
Sewer plant and equipment	(4,060,990)	(251,794)	-	(4,312,784)
Business-Type Activities				
Swimming pool buildings	(38,211)	(751)	-	(38,962)
Swimming pool equipment	(113,755)	(1,766)	-	(115,521)
Office equipment	(104,587)	(226)	-	(104,813)
Trucks and equipment	<u>(424,701)</u>	<u>(17,759)</u>	<u>-</u>	<u>(442,460)</u>
Total accumulated depreciation	<u>(9,754,158)</u>	<u>(604,691)</u>	<u>-</u>	<u>(10,358,849)</u>
Total capital assets being depreciated, net	<u>17,886,728</u>	<u>(397,213)</u>	<u>-</u>	<u>17,489,515</u>
Total capital assets, net	<u>\$18,089,180</u>	<u>\$ 1,200,832</u>	<u>\$ -</u>	<u>\$19,290,012</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to business-type activities as follows:

Water and sewer	\$ 602,174
Swimming pool	<u>2,517</u>
	<u>\$ 604,691</u>

NOTE E – LONG – TERM DEBT

The City's long term debt at June 30, 2018 consisted of the following:

Governmental Activities

- 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 June 6, 2017, the City borrowed \$227,475 from BB&T Governmental Finance for a 2016 Freightliner garbage truck and to refinance the remaining balance of the 2013 Freightliner garbage truck. The agreement provides for 84 monthly payments of \$2,964 to be made beginning July 6, 2017 with final payment due on June 6, 2024. The debt bears interest at 2.59%.
- 3) On December 13, 2017, the City entered into an agreement to purchase the Vinson property from Herbert and Kimberly Lemaster for \$95,239. The agreement provides for 4 annual payments of \$20,000 to be made beginning December 13, 2018 with final payment due on December 13, 2021. The debt bears interest at 2.50%. Initial payment of \$20,000 was due at the date of closing.
- 4) On August 9, 2017, the City entered into an agreement with KACO Finance Services for \$1,885,000 for energy improvement upgrades. The City's portion is \$283,489 while the Water & Sewer department's portion is for \$1,601,511. The agreement provides for interest to be paid each July and interest and various escalating principal amounts to be paid each January. The debt bears interest at 3.00%. Final payment is due January 1, 2032.

	<u>Amount Outstanding 6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2018</u>	<u>Amounts Due Within One Year</u>
BB&T (garbage truck)	\$ 227,475	\$ -	\$ (30,029)	\$ 197,446	\$ 30,817
Kentucky League of Cities (city garage lot)	41,471	-	(7,428)	34,043	7,769
Lemaster loan (Vinson property)	-	95,239	(20,000)	75,239	18,119
KACO Finance (energy improvements)	-	<u>283,489</u>	<u>-</u>	<u>283,489</u>	<u>15,791</u>
Long-Term Debt	<u>\$ 268,946</u>	<u>\$ 378,728</u>	<u>\$ (57,457)</u>	<u>\$ 590,217</u>	<u>\$ 72,496</u>

NOTE E – LONG – TERM DEBT – CONTINUED

Principal and interest payments to be made on all long-term debt at June 30, 2018, 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>
2019	\$ 72,496	\$ 72,496	\$ 16,917	\$ 89,413
2020	74,864	74,864	14,724	89,588
2021	77,285	77,285	12,456	89,741
2022	79,000	79,000	10,041	89,041
2023	53,734	53,734	7,592	61,326
2024-2028	138,843	138,843	21,217	160,060
2029-2032	<u>93,995</u>	<u>93,995</u>	<u>5,790</u>	<u>99,785</u>
	<u>\$ 590,217</u>	<u>\$ 590,217</u>	<u>\$ 88,737</u>	<u>\$678,954</u>

Business – Type Activities

	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
Bonds:			
Water Revenue Bond, Series 1989 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	\$ 48,260	5.00%	01/2029
Water and Sewer Revenue Bond, Series 2002 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	763,500	3.25%	01/2042
Water and Sewer Revenue Bond, Series 2007 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	362,000	4.125%	01/2046
Public Projects Refunding and Improvement Revenue Bonds, Series 2010D. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	<u>290,000</u>	.8% to 4.2%	01/2025
	1,463,760		

Notes:

Notes payable to Kentucky Infrastructure Authority for sewer upgrades, due in monthly installments of principal and interest. (C98-02)	105,000	2.25%	06/2022
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NOTE E – LONG – TERM DEBT – CONTINUED

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Notes payable to Kentucky Infrastructure Authority for sewer upgrades, due in monthly installments of principal and interest. (A11-02)	798,885	1.00%	06/2034
Note payable to Kentucky Infrastructure Authority assumed from Lawrence County Fiscal Court for Lawrence County sewer system, due in semi-annual installments of principal and interest, in June and December of each year. (C97-02)	151,658	1.80%	6/2021
Note payable to Kentucky Infrastructure Authority for water project upgrades, due in semi-annual installments of principal and interest, in June and December of each year. (F02-06)	1,171,091	1.00%	06/2024
Note payable to Kentucky Infrastructure Authority for sewer line project, due in semi-annual installments of principal and interest, in June and December of each year. (A209-10)	353,850	1.00%	12/2030
Note payable to KACO Financial Services for water meter and pump station upgrades, due in semi-annual installments of principal and interest in January of each year, and interest only in July of each year. (1BP2017B)	1,601,511	3.00%	01/2032
Note payable to Kentucky Infrastructure Authority for sewer and water interconnect project, due in semi-annual installments of principal and interest, in June and December of each year. (B08-07)	748,344	1.07%	06/2033
Note payable to Kentucky Infrastructure Authority for water improvement project, due in semi-annual installments of principal and interest, in June and December of each year. (F10-03)	<u>1,299,047</u>	1.00%	06/2033
	<u>6,229,386</u>		
	<u>\$7,693,146</u>		

NOTE E – LONG – TERM DEBT – CONTINUED

	Amount Outstanding 6/30/2017	Additions	Deductions	Amount Outstanding 6/30/2018	Amounts Due Within One Year
Bond payable – 1989 issue	\$ 51,500	\$ -	\$ (3,240)	\$ 48,260	\$ 3,390
Bond payable – 2002 issue	784,000	-	(20,500)	763,500	21,500
Bond payable – 2007 issue	368,500	-	(6,500)	362,000	6,500
Bond payable – 2010D issue	400,000	-	(110,000)	290,000	35,000
Note payable – KIA (C98-02)	125,000	-	(20,000)	105,000	25,000
Note payable – KIA (A11-02)	844,708	-	(45,823)	798,885	46,282
Note payable – KIA (F02-06)	1,359,550	-	(188,459)	1,171,091	190,347
Note payable – KIA (A209-10)	380,298	-	(26,448)	353,850	26,713
Note payable – KIA (B08-07)	794,102	-	(45,758)	748,344	46,250
Note payable – KIA (F10-03)	1,378,932	-	(79,885)	1,299,047	80,687
Note payable – KIA (C97-02)	-	200,425	(48,767)	151,658	49,649
Note payable – KACO (1BP2017B))	-	1,601,511	-	1,601,511	89,209
Long-Term Debt	<u>\$6,486,590</u>	<u>\$ 1,801,936</u>	<u>\$ (595,380)</u>	<u>\$7,693,146</u>	<u>\$ 620,527</u>

Principal and interest payments to be made on all long-term debt at June 30, 2018, for each of the next five years and thereafter are as follows:

Year Ending 6/30	Bonds	Notes	Total Principal	Total Interest	Total
2019	\$ 66,390	\$ 554,137	\$ 620,527	\$ 158,697	\$ 779,224
2020	72,570	563,228	635,798	147,333	783,131
2021	74,240	572,375	646,615	135,581	782,196
2022	74,930	529,939	604,869	123,533	728,402
2023	76,630	512,502	589,132	111,122	700,254
2024-2028	298,450	1,859,589	2,158,039	400,869	2,558,908
2029-2033	220,550	1,583,864	1,804,414	205,879	2,010,293
2034-2038	255,500	53,752	309,252	87,296	396,548
2039-2043	261,500	-	261,500	38,696	300,196
2044-2046	63,000	-	63,000	5,280	68,280
	<u>\$1,463,760</u>	<u>\$6,229,386</u>	<u>\$7,693,146</u>	<u>\$1,414,286</u>	<u>\$9,107,432</u>

Construction Advances

On May 1, 2017, the City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the planning and design portion of a sewer rehabilitation project. The future loan to the City is \$356,060 of which \$142,242 was received through June 30, 2018. The loan contract carries a 2.75% interest rate. Debt service requirements to maturity have not been presented for this obligation because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

NOTE F – DEFINED PENSION

General Information about the Pension Plan

Plan Description

Employees of the City of Louisa, Kentucky are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the County Employee’s Retirement System. Section 61.645 of the Kentucky Revised Statutes grants to CERS Board of Trustees and the Kentucky Legislature the authority to review administration, benefit terms, investments, and funding of the plan. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. CERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

NOTE F – DEFINED PENSION – CONTINUED

Contributions

Per State Statutes, contribution requirements of the active employees are established and may be amended by the CERS Board. Employees hired before 9/1/08 are required to contribute 5.00 percent of their annual pay and employees hired after 9/1/08 are required to contribute 6.00 percent of their annual pay. The City’s contractually required contribution rate for the year ended June 30, 2018, was 14.48 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$140,454 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a liability of \$2,326,749 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 employers, actuarially determined. At June 30, 2017, the City’s proportion was 0.040 percent, which was a decrease of 0.003 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$360,089. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,886	\$ 59,063
Changes of assumptions	429,348	-
Net difference between projected and actual earnings on pension plan investments	28,779	-
Changes in proportion and differences between City contributions and proportionate share of contributions	37,693	110,620
City contributions subsequent to the measurement date	<u>140,454</u>	<u>-</u>
Total	<u>\$ 639,160</u>	<u>\$ 169,683</u>

\$140,454 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTE F – DEFINED PENSION – CONTINUED

Year ended June 30:	
2019	\$ 149,563
2020	148,020
2021	61,316
2022	(29,876)
2023	-
Thereafter	-

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2015 are as follows:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Amortization Period	28 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%

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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%

NOTE F – DEFINED PENSION – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Privacy Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	5.56%

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the Employer’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the Net Pension Liability using the discount rate of 6.25%, as well as what the City’s proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is one percentage-point lower (5.25%) or one percentage-point higher (7.25%) than the current rate:

	<u>1.0% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1.0% Increase (7.25%)</u>
City’s proportionate share of the net pension liability	\$2,934,533	\$2,326,749	\$1,818,341

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued KRS 2017 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$19,360 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

NOTE G – OPEB PLAN

General Information about the OPEB plan

Plan Description and Benefits Provided

The City of Louisa, Kentucky participates in the County Employees Retirement System (CERS) Insurance Fund, a multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan for members that cover all regular full-time members employed by the City. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Contributions

The City’s contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of covered payroll. Contributions to the OPEB plan from the City were \$45,590 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$799,131 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on the City’s share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the City’s proportion was 0.040 percent, which was a decrease of 0.003 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized OPEB expense of \$91,064. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,219
Changes of assumptions	173,886	-
Net difference between projected and actual earnings On OPEB plan investments	-	37,766
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,855
City contributions subsequent to the measurement date	<u>45,590</u>	<u>-</u>
Total	<u>\$ 219,476</u>	<u>\$ 41,840</u>

NOTE G – OPEB PLAN – CONTINUED

\$45,590 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ 22,720
2020	22,720
2021	22,720
2022	22,720
2023	32,161
Thereafter	9,005

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2017 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Pre - 65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Post - 65	

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

NOTE G – OPEB PLAN – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Privacy Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	6.56%

Sensitivity of the Employer’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.0% Increase</u>
City’s proportionate share of the net OPEB liability	\$612,974	\$799,131	\$1,041,123

Discount Rate

The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 – Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Employer’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the Net OPEB Liability using the discount rate of 5.84%, as well as what the City’s proportionate share of the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower (4.84%) or one percentage-point higher (6.84%) than the current rate:

NOTE G – OPEB PLAN – CONTINUED

	<u>1.0% Decrease (4.84%)</u>	<u>Current Discount Rate (5.84%)</u>	<u>1.0% Increase (6.84%)</u>
City's proportionate share of the net OPEB liability	\$1,016,850	\$799,131	\$617,955

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2017 Comprehensive Annual Financial Report at kyret.ky.gov.

NOTE H – COMMITMENTS

The City has the Ky 2565/Ky 2563/CR 1519 intersect utility relocation construction project in progress. The project is funded by a \$705,102 Kentucky Transportation Cabinet Utility Relocation Keep Cost Agreement.

NOTE I – 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 J – LITIGATION

The City is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Administration officials and legal council do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in process.

NOTE K – 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

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 Construction Fund has a deficit fund balance of \$14,024 at June 30, 2018. The deficit will be eliminated with future grant and loan proceeds.

NOTE N – TRANSFER OF FUNDS/ASSETS

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	\$ 8,755

NOTE O – CAPITAL LEASES

The City entered into lease agreements on April 10, 2018 with Magnolia Bank (police vehicles) and February 28, 2014 with the Kentucky Bond Corporation (fire trucks). The lease agreements qualify as capital leases for accounting purposes, therefore they have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2018, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>
2019	\$ 39,142
2020	38,742
2021	38,342
2022	27,275
2023	26,650
2024-2025	<u>31,050</u>
Total minimum lease payments	201,201
Less amount representing interest	<u>(18,006)</u>
Present value of net minimum lease payments	<u>\$ 183,195</u>

Following is a summary of the property held by the City under the capital lease at June 30, 2018:

	<u>Governmental Activities</u>
Fire trucks (Kentucky Bond Corporation)	\$ 235,998
Police vehicle (Magnolia Bank)	58,811
Less accumulated depreciation	<u>(105,206)</u>
	<u>\$ 189,603</u>

NOTE O – CAPITAL LEASES – CONTINUED

	<u>Amount Outstanding 6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2018</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 168,215	\$ 58,811	\$ (43,832)	\$ 183,194	\$ 33,813

NOTE P – SUBSEQUENT EVENTS

Management has evaluated and has not recognized any subsequent events through February 15, 2019, the date the financial statements were available to be issued.

NOTE Q – RESTATEMENTS

For the year ended June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures for other postemployment benefits (OPEB). This Statement identifies the methods and assumptions that should be used to project benefit payments, and discount projected benefit payments to their actuarial present value. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the OPEB plan that are within its scope.

The implementation of GASB Statement No. 75 had the following effect:

	<u>Government – Wide Statements</u>	
	<u>Governmental Activities</u>	<u>Business – Type Activities</u>
Net position June 30, 2017	\$1,372,248	\$12,058,071
Recognition of net OPEB liabilities	<u>(316,648)</u>	<u>(310,167)</u>
Restated net position June 30, 2017	<u>\$1,055,600</u>	<u>\$11,747,904</u>

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 Harold Slone, 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, 2018, 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 February 15, 2019, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in 2018-001 below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

2018-001 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.

Effect: An improper segregation of duties can subject the City to intentional or unintentional losses due to errors or irregularities.

Recommendation: The City should continue to review the internal control structure and segregate duties where possible.

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Louisa, Kentucky's Response to Findings

The City of Louisa, Kentucky's response to the findings identified in our audit is described above. 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
February 15, 2019

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 372,000	\$ 372,000	\$ 367,566	\$ (4,434)
Motor vehicle tax	24,000	24,000	26,592	2,592
Taxes on insurance premiums	327,178	327,178	361,113	33,935
Occupational licenses	12,500	12,500	12,138	(362)
Franchise fees	40,785	40,785	56,996	16,211
Telecommunication tax	5,725	5,725	5,729	4
ABC fees	99,500	99,500	106,463	6,963
Law enforcement fees	8,120	8,120	6,678	(1,442)
Municipal road aid	50,150	50,150	48,369	(1,781)
Police incentive	32,242	32,242	25,877	(6,365)
Fire state aid	11,000	11,000	11,000	-
Coal and mineral severance	85,000	85,000	61,909	(23,091)
Other grants	22,600	150,267	229,310	79,043
Sanitation fees	360,000	360,000	376,303	16,303
Fire district contract	40,400	40,400	40,117	(283)
Arrest fees	1,800	1,800	2,303	503
Interest	125	125	353	228
Rent	6,500	6,500	5,276	(1,224)
Donations	9,800	9,800	55,011	45,211
Other receipts	98,200	98,200	53,035	(45,165)
Total Revenues	<u>1,607,625</u>	<u>1,735,292</u>	<u>1,852,138</u>	<u>116,846</u>
Expenditures:				
General government:				
Salaries and wages	72,084	73,929	76,267	(2,338)
Payroll taxes	5,891	5,956	6,119	(163)
Retirement	14,017	12,712	12,605	107
Life and health insurance	46,969	46,969	47,040	(71)
Insurance	14,110	14,110	12,860	1,250
Advertising and printing	3,500	3,500	2,775	725
Professional fees	18,000	18,000	18,904	(904)
Repairs and maintenance	1,500	1,500	5,465	(3,965)
Utilities and communications	10,800	10,800	10,647	153
Other contractual services	10,250	10,250	12,458	(2,208)
Community center expenses	4,500	4,500	5,508	(1,008)
Materials and supplies	9,650	9,650	6,343	3,307
Other expenses	21,500	17,500	20,977	(3,477)
Debt service:				
Interest expense	-	4,834	4,834	-
Principal retirement	-	20,000	20,000	-
Capital outlays	19,100	19,100	393,440	(374,340)
Total General Government	<u>251,871</u>	<u>273,310</u>	<u>656,242</u>	<u>(382,932)</u>

CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Salaries and wages	236,430	241,297	242,298	(1,001)
Payroll taxes	18,737	19,109	18,801	308
Retirement	39,163	40,097	44,291	(4,194)
Life and health insurance	70,643	70,643	57,343	13,300
Insurance	15,865	15,865	17,699	(1,834)
Professional fees	250	250	82	168
Repairs and maintenance	3,000	3,000	4,063	(1,063)
Utilities and communications	6,500	6,500	5,625	875
Other contractual services	3,000	3,000	748	2,252
Materials and supplies	30,500	30,500	19,958	10,542
Other expenses	15,800	14,104	5,183	8,921
Debt service:				
Interest expense	-	-	622	(622)
Principal retirement	18,000	18,000	23,832	(5,832)
Capital outlays	4,500	4,500	58,811	(54,311)
Total Police	<u>462,388</u>	<u>466,865</u>	<u>499,356</u>	<u>(32,491)</u>
Fire:				
Salaries and wages	11,781	11,813	11,247	566
Payroll taxes	1,006	1,009	943	66
Insurance	20,600	20,600	25,930	(5,330)
Repairs and maintenance	8,000	8,000	7,020	980
Utilities and communications	13,000	13,000	15,466	(2,466)
Other contractual services	750	750	700	50
Materials and supplies	24,500	24,500	10,654	13,846
Other expenses	26,875	26,875	20,871	6,004
Debt service:				
Interest expense	5,078	5,078	4,775	303
Principal retirement	20,000	20,000	20,000	-
Capital outlays	40,586	143,587	216,306	(72,719)
Total Fire	<u>172,176</u>	<u>275,212</u>	<u>333,912</u>	<u>(58,700)</u>
Street:				
Salaries and wages	89,469	91,734	90,312	1,422
Payroll taxes	7,144	7,318	7,113	205
Retirement	17,160	15,293	15,752	(459)
Life and health insurance	35,321	35,321	35,016	305
Insurance	8,500	8,500	7,178	1,322

CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Repairs and maintenance	5,000	5,000	4,350	650
Utilities and communications	63,300	63,300	59,294	4,006
Other contractual services	4,000	4,000	3,215	785
Materials and supplies	23,500	23,500	30,247	(6,747)
Other expenses	9,551	9,551	15,743	(6,192)
Debt service:				
Interest expense	786	786	660	126
Principal retirement	3,714	3,714	3,714	-
Capital outlays	146,500	146,500	121,655	24,845
Total Street	<u>413,945</u>	<u>414,517</u>	<u>394,249</u>	<u>20,268</u>
Sanitation:				
Salaries and wages	96,669	92,946	102,276	(9,330)
Payroll taxes	7,760	7,475	8,074	(599)
Retirement	18,541	17,827	19,153	(1,326)
Life and health insurance	47,095	47,095	42,194	4,901
Insurance	11,500	11,500	17,629	(6,129)
Repairs and maintenance	4,000	4,000	8,013	(4,013)
Utilities and communications	1,781	1,781	2,060	(279)
Other contractual services	80,000	80,000	83,592	(3,592)
Materials and supplies	29,700	29,700	29,567	133
Other expenses	1,500	1,500	3,739	(2,239)
Debt service:				
Interest expense	7,031	7,031	6,197	834
Principal retirement	33,743	33,743	33,743	-
Capital outlays	12,500	12,500	50,938	(38,438)
Total Sanitation	<u>351,820</u>	<u>347,098</u>	<u>407,175</u>	<u>(60,077)</u>
Alcohol Beverage Control:				
Salaries and wages	30,784	31,595	32,510	(915)
Payroll taxes	2,455	2,517	2,456	61
Retirement	5,904	6,060	5,925	135
Life and health insurance	11,774	11,774	11,370	404
Insurance	1,430	1,430	1,106	324
Repairs and maintenance	500	500	1,016	(516)
Utilities and communications	600	600	1,069	(469)
Materials and supplies	2,500	2,500	3,715	(1,215)
Other expenses	8,352	8,352	7,865	487
Total Alcohol Beverage Control	<u>64,299</u>	<u>65,328</u>	<u>67,032</u>	<u>(1,704)</u>
Total Expenditures	<u>1,716,499</u>	<u>1,842,330</u>	<u>2,357,966</u>	<u>(513,932)</u>

**CITY OF LOUISA, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other Financing Sources/(Uses):				
Proceeds from borrowing	-	-	437,539	437,539
Proceeds from insurance	-	-	20,441	20,441
Transfers to Swimming Pool	<u>(4,000)</u>	<u>(4,000)</u>	<u>(8,755)</u>	<u>(4,755)</u>
Total Other Financing Uses	<u>(4,000)</u>	<u>(4,000)</u>	<u>449,225</u>	<u>453,225</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (112,874)</u>	<u>\$ (111,038)</u>	(56,603)	<u>\$ 54,435</u>
Fund balance - beginning			<u>532,486</u>	
Fund balance - ending			<u>\$ 475,883</u>	

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2018**

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
City's proportion of the net pension liability (asset)	0.042992%	0.041392%	0.042613%
City's proportionate share of the net pension liability (asset)	\$ 1,394,000	\$ 1,779,668	\$ 2,098,096
City's covered-employee payroll	\$ 965,733	\$ 1,016,536	\$ 967,848
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	144.35%	175.07%	216.78%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%
	<u>6/30/2018</u>		
City's proportion of the net pension liability (asset)	0.039751%		
City's proportionate share of the net pension liability (asset)	\$ 2,326,749		
City's covered-employee payroll	\$ 969,990		
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	239.87%		
Plan fiduciary net position as a percentage of the total pension liability	53.30%		

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF CITY PENSION CONTRIBUTIONS (CERS)
JUNE 30, 2018**

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Contractually required contribution	\$ 123,131	\$ 126,254	\$ 135,015
Contributions in relation to the contractually required contribution	<u>123,131</u>	<u>126,254</u>	<u>135,015</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 965,733	\$ 1,016,536	\$ 967,848
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%
	<u>6/30/2018</u>		
Contractually required contribution	\$ 140,454		
Contributions in relation to the contractually required contribution	<u>140,454</u>		
Contribution deficiency (excess)	<u>\$ -</u>		
City's covered-employee payroll	\$ 969,990		
Contributions as a percentage of covered-employee payroll	14.48%		

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF LOUISA, KENTUCKY
NOTES TO REQUIRED PENSION SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2018**

45

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 was determined using a 2.30% price inflation assumption for the non-hazardous and hazardous systems, and the assumed rate of return is 6.25% for the non-hazardous system and hazardous system.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2017

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Amortization Period	28 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50% for CERS non-hazardous, and hazardous, and KERS hazardous, 6.75% for KERS non-hazardous

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2018**

	<u>6/30/2018</u>
City's proportion of the net OPEB liability (asset)	0.039751%
City's proportionate share of the net OPEB liability (asset)	\$ 799,131
City's covered-employee payroll	\$ 969,990
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	82.39%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF CITY OPEB CONTRIBUTIONS (CERS)
JUNE 30, 2018**

	<u>6/30/2018</u>
Contractually required contribution	\$ 45,590
Contributions in relation to the contractually required contribution	<u>45,590</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 969,990
Contributions as a percentage of covered-employee payroll	4.70%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF LOUISA, KENTUCKY
NOTES TO REQUIRED OPEB SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2018**

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NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total OPEB Liability as of June 30, 2017 was determined using a 2.30% price inflation assumption and an assumed rate of return is 6.25%.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2017

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Amortization Period	28 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Pre – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

SUPPLEMENTAL AND OTHER INFORMATION

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Salaries and wages	\$ 367,173	\$ 123,270	\$ 16,457	\$ 506,900
Payroll taxes	28,043	9,717	1,242	39,002
Employee benefits	254,017	75,728	-	329,745
Insurance	41,029	23,322	-	64,351
Lab tests	21,524	12,522	-	34,046
Legal and professional	25,401	8,262	-	33,663
Materials and supplies	210,151	43,929	10,562	264,642
Miscellaneous	80,936	34,973	2,169	118,078
Office expense	34,922	13,026	934	48,882
Repairs and maintenance	211,751	142,329	4,861	358,941
Taxes	-	-	-	-
Telephone	5,909	2,878	329	9,116
Truck expense	34,094	8,551	-	42,645
Utilities	249,242	141,608	4,669	395,519
Depreciation	339,361	262,813	2,517	604,691
TOTAL OPERATING EXPENSES	<u><u>\$ 1,903,553</u></u>	<u><u>\$ 902,928</u></u>	<u><u>\$ 43,740</u></u>	<u><u>\$2,850,221</u></u>