

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

June 30, 2019



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, 2019, 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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 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 7, 2020 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 solely 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 & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
February 7, 2020

**CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019**

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 363,045	\$ 1,188,841	\$ 1,551,886
Taxes receivable	110,392	-	110,392
Grants receivable	72,748	42,180	114,928
Sanitation fees receivable	36,097	-	36,097
Other receivables	10,077	-	10,077
Accounts receivable	-	374,838	374,838
Unbilled receivables	-	134,229	134,229
Inventory	-	85,439	85,439
Prepaid items	14,264	37,138	51,402
Capital assets:		-	
Land and construction-in-progress	1,037,002	1,786,526	2,823,528
Other capital assets, net of accumulated depreciation	1,820,278	17,999,416	19,819,694
Total Assets	3,463,903	21,648,607	25,112,510
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions & OPEB	371,049	313,195	684,244
LIABILITIES			
Accounts payable	95,555	182,207	277,762
Accrued expenses	53,993	67,117	121,110
Accrued compensated absences	21,592	15,361	36,953
Accrued interest payable	4,311	53,496	57,807
Customer deposits	-	66,750	66,750
Due to City of Louisa - sanitation fees	-	36,097	36,097
Long-term liabilities:			
Net pension liability	1,246,685	1,136,816	2,383,501
Net OPEB liability	363,423	331,393	694,816
Due within one year	109,254	635,798	745,052
Due in more than one year	557,848	6,669,471	7,227,319
Total Liabilities	2,452,661	9,194,506	11,647,167
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions & OPEB	130,132	168,668	298,800
NET POSITION			
Net investment in capital assets	2,190,178	12,480,673	14,670,851
Restricted for:			
Debt service	10,276	302,962	313,238
Capital asset repair and replacement	-	806,898	806,898
Special revenue	8,079	-	8,079
Public safety	76,370	-	76,370
Unrestricted (deficit)	(1,032,744)	(991,905)	(2,024,649)
Total Net Position	\$ 1,252,159	\$ 12,598,628	\$ 13,850,787

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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	\$ 311,609	\$ -	\$ -	\$ 25,358	\$ (286,251)	\$ -	\$ (286,251)
Public safety	676,353	31,605	3,598	-	(641,150)	-	(641,150)
Streets	299,043	-	-	53,400	(245,643)	-	(245,643)
Sanitation	370,590	389,042	-	-	18,452	-	18,452
Alcohol Beverage Control	81,246	-	-	-	(81,246)	-	(81,246)
Youth programs	237	-	-	-	(237)	-	(237)
Construction	-	-	-	14,024	14,024	-	14,024
Interest on long-term debt	23,756	-	-	-	(23,756)	-	(23,756)
Total governmental activities	1,762,834	420,647	3,598	92,782	(1,245,807)	-	(1,245,807)
Business-type activities:							
Water and sewer	3,024,867	3,054,100	-	-	-	29,233	29,233
Swimming pool	41,961	37,432	-	-	-	(4,529)	(4,529)
Total business-type activities	3,066,828	3,091,532	-	-	-	24,704	24,704
Total primary government	\$ 4,829,662	\$ 3,512,179	\$ 3,598	\$ 92,782	(1,245,807)	24,704	(1,221,103)
General revenues:							
Property taxes					367,074	-	367,074
Motor vehicle taxes					26,199	-	26,199
Insurance premium taxes					384,254	-	384,254
Telecommunication taxes					5,870	-	5,870
Occupational licenses					12,337	-	12,337
Franchise fees					46,480	-	46,480
ABC fees					110,746	-	110,746
Intergovernmental revenue					170,432	874,172	1,044,604
Rental income					5,294	-	5,294
Interest income					539	2,476	3,015
Gain on disposal of capital assets					9,844	-	9,844
Insurance proceeds					10,184	-	10,184
Miscellaneous					106,583	-	106,583
Transfers:					(541)	541	-
Total general revenues and transfers					1,255,295	877,189	2,132,484
Change in net position					9,488	901,893	911,381
Net position - beginning					1,242,671	11,696,735	12,939,406
Net position - ending					\$ 1,252,159	\$ 12,598,628	\$ 13,850,787

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

5

	General Fund	Capital Projects Fund	Youth Programs Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 354,966	\$ -	\$ 8,079	\$ 363,045
Receivables:				
Taxes	110,392	-	-	110,392
Grants	72,748	-	-	72,748
Sanitation fees	36,097	-	-	36,097
Other	10,077	-	-	10,077
Prepaid items	14,264	-	-	14,264
Total Assets	<u>\$ 598,544</u>	<u>\$ -</u>	<u>\$ 8,079</u>	<u>\$ 606,623</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 95,555	\$ -	\$ -	\$ 95,555
Accrued payroll	15,369	-	-	15,369
Accrued payroll taxes	1,818	-	-	1,818
Accrued compensated absences	21,592	-	-	21,592
Other accrued liabilities	32,469	-	-	32,469
Total Liabilities	<u>166,803</u>	<u>-</u>	<u>-</u>	<u>166,803</u>
Fund Balances:				
Restricted for:				
Public safety	76,370	-	-	76,370
Youth programs	-	-	8,079	8,079
Debt service	10,276	-	-	10,276
Unassigned	345,095	-	-	345,095
Total Fund Balances	<u>431,741</u>	<u>-</u>	<u>8,079</u>	<u>439,820</u>
Total Liabilities and Fund Balances	<u>\$ 598,544</u>	<u>\$ -</u>	<u>\$ 8,079</u>	<u>\$ 606,623</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, 2019

6

Fund Balances - Total Governmental Funds **\$ 439,820**

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	4,860,813
Less: accumulated depreciation	(2,003,533)

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.	(4,311)
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Pension contributions after measurement date are reported as a deferred outflow of resources:	109,515
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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:	(1,610,108)
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Other OPEB related accruals	(4,337)
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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	261,534
Deferred pension & OPEB inflows of resources	(130,132)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	<u>(667,102)</u>
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Net Position of Governmental Activities	<u>\$ 1,252,159</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, 2019

7

	General Fund	Capital Projects Fund	Youth Programs Fund	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 367,074	\$ -	\$ -	\$ 367,074
Motor vehicle	26,199	-	-	26,199
Insurance premium	384,254	-	-	384,254
Telecommunication	5,870	-	-	5,870
Occupational licenses	12,337	-	-	12,337
Franchise fees	46,480	-	-	46,480
ABC fees	110,746	-	-	110,746
Intergovernmental revenues	170,432	14,024	-	184,456
Grants	82,356	-	-	82,356
Charges for services	420,647	-	-	420,647
Rental income	5,294	-	-	5,294
Interest income	539	-	-	539
Donations	12,479	-	2,613	15,092
Miscellaneous revenues	91,491	-	-	91,491
Total revenues	<u>1,736,198</u>	<u>14,024</u>	<u>2,613</u>	<u>1,752,835</u>
Expenditures:				
Current:				
General government	266,490	-	-	266,490
Public safety	516,412	-	-	516,412
Streets	251,893	-	-	251,893
Sanitation	308,103	-	-	308,103
Alcohol beverage control	71,799	-	-	71,799
Youth programs	-	-	237	237
Debt service:				
Interest	24,072	-	-	24,072
Principal retirement	106,309	-	-	106,309
Capital outlay	<u>254,749</u>	<u>-</u>	<u>-</u>	<u>254,749</u>
Total expenditures	<u>1,799,827</u>	<u>-</u>	<u>237</u>	<u>1,800,064</u>
Excess (deficiency) of revenues over expenditures	(63,629)	14,024	2,376	(47,229)
Other financing sources (uses):				
Proceeds from sale of capital assets	9,844	-	-	9,844
Proceeds from insurance	10,184	-	-	10,184
Transfers Out	<u>(541)</u>	<u>-</u>	<u>-</u>	<u>(541)</u>
Total other financing sources (uses)	<u>19,487</u>	<u>-</u>	<u>-</u>	<u>19,487</u>
Net change in fund balances	(44,142)	14,024	2,376	(27,742)
Fund balances - beginning	<u>475,883</u>	<u>(14,024)</u>	<u>5,703</u>	<u>467,562</u>
Fund balances - ending	<u>\$ 431,741</u>	<u>\$ -</u>	<u>\$ 8,079</u>	<u>\$ 439,820</u>

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, 2019**

8

Net Change in Fund Balances - Total Governmental Funds **\$ (27,742)**

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	254,749
Depreciation expense	(174,072)

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.	316
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The net effect of various miscellaneous transactions involving capital assets:	-
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Changes in pension expense are reported only in the statement of activities	(150,072)
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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	-
Principal paid	106,309

Change in Net Position of Governmental Activities	<u>\$ 9,488</u>
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See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

9

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 68,410	\$ 10,571	\$ 78,981
Customer accounts receivable, net	374,838	-	374,838
Unbilled receivables	134,229	-	134,229
Grant receivables	42,180	-	42,180
Inventory	85,439	-	85,439
Prepaid items	37,138	-	37,138
Total current assets	742,234	10,571	752,805
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	1,109,860	-	1,109,860
Capital assets:			
Land	177,452	25,000	202,452
Construction work in progress	1,584,074	-	1,584,074
Capital assets, net of depreciation	17,978,504	20,912	17,999,416
Total non-current assets	20,849,890	45,912	20,895,802
Total assets	21,592,124	56,483	21,648,607
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions	222,809		222,809
Deferred outflows related to OPEB	90,386	-	90,386
Total deferred outflows of resources	313,195	-	313,195
LIABILITIES			
Current liabilities:			
Accounts payable	181,519	688	182,207
Compensated absences	15,361	-	15,361
Accrued interest payable	53,496	-	53,496
Other accrued liabilities	62,135	4,982	67,117
Customer deposits	66,750	-	66,750
Due to City of Louisa - sanitation fees	36,097	-	36,097
Total current liabilities	415,358	5,670	421,028
Payable from restricted assets:			
Current portion of bonds and notes payable	635,798	-	635,798
Total liabilities payable from restricted assets	635,798	-	635,798

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2019

10

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Totals
Long-term liabilities:			
Net pension liability	1,136,816	-	1,136,816
Net OPEB liability	331,393	-	331,393
Construction advances	232,650	-	232,650
Bonds and notes payable	7,072,619	-	7,072,619
	8,773,478	-	8,773,478
Less current portion	(635,798)	-	(635,798)
Total long-term liabilities	8,137,680	-	8,137,680
Total liabilities	9,188,836	5,670	9,194,506
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions	90,287	-	90,287
Deferred inflows related to OPEB	78,381	-	78,381
Total deferred inflows of resources	168,668	-	168,668
NET POSITION			
Net investment in capital assets	12,434,761	45,912	12,480,673
Restricted			
Debt service	302,962	-	302,962
Capital asset repair and replacement	806,898	-	806,898
Unrestricted	(996,806)	4,901	(991,905)
Total net position	\$ 12,547,815	\$ 50,813	\$ 12,598,628

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, 2019

11

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Total
Operating revenues:			
Water revenues	\$ 1,859,133	\$ -	\$ 1,859,133
Sewer revenues	1,071,368	-	1,071,368
Pool receipts	-	35,432	35,432
Other operating revenues	123,599	2,000	125,599
Total operating revenues	3,054,100	37,432	3,091,532
Operating expenses:			
Water	1,804,513	-	1,804,513
Sewer	1,056,943	-	1,056,943
Swimming Pool	-	41,961	41,961
Total operating expenses	2,861,456	41,961	2,903,417
Operating income (loss)	192,644	(4,529)	188,115
Non-operating revenues (expenses):			
Interest income	2,476	-	2,476
Interest expense	(163,411)	-	(163,411)
Total non-operating revenues (expenses)	(160,935)	-	(160,935)
Income (loss) before contributions and transfers	31,709	(4,529)	27,180
Contributions in aid of construction	874,172	-	874,172
Transfers from General Fund	-	541	541
Total contributions and transfers	874,172	541	874,713
Change in net position	905,881	(3,988)	901,893
Net position, beginning of year	11,641,934	54,801	11,696,735
Net position, end of year	\$ 12,547,815	\$ 50,813	\$ 12,598,628

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

12

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Total
Cash flows from operating activities:			
Cash inflows:			
Payments received from customers	\$ 3,057,447	\$ 37,432	\$ 3,094,879
Total cash provided	3,057,447	37,432	3,094,879
Cash outflows:			
Payments for salaries and benefits	736,068	18,510	754,578
Payments to suppliers for goods and services	1,400,707	19,983	1,420,690
Total cash used	2,136,775	38,493	2,175,268
Net cash provided (used) by operating activities	920,672	(1,061)	919,611
Cash flows from noncapital financing activities:			
Transfers from General Fund	-	541	541
Net cash provided (used) by noncapital financing activities	-	541	541
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,076,110)	-	(1,076,110)
Capital contributions received	831,992	-	831,992
Principal payments on debt	(620,527)	-	(620,527)
Proceeds from borrowings	90,408	-	90,408
Interest paid on long-term debt	(169,506)	-	(169,506)
Net cash provided (used) by capital and related financing activities	(943,743)	-	(943,743)
Cash flows from investing activities:			
Interest received	2,476	-	2,476
Net cash provided (used) by investing activities	2,476	-	2,476
Net cash inflow (outflow) from all activities	(20,595)	(520)	(21,115)
Cash and cash equivalents at beginning of period	1,198,865	11,091	1,209,956
Cash and cash equivalents at end of period	\$ 1,178,270	\$ 10,571	\$ 1,188,841

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

13

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Total
Reconciliation of utility operating income to net cash provided by operating activities:			
Operating income	\$ 192,644	\$ (4,529)	\$ 188,115
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	601,915	3,008	604,923
(Increase) decrease in:			
Customer accounts receivable	9,521	-	9,521
Unbilled revenue	(6,174)	-	(6,174)
Inventory	4,421	-	4,421
Other assets and deferred outflows	79,060	-	79,060
Increase (decrease) in:			
Accounts payable	70,906	(738)	70,168
Other liabilities and deferred inflows	46,950	1,198	48,148
Net pension and OPEB liability	(78,571)	-	(78,571)
Net cash provided (used) by operating activities	\$ 920,672	\$ (1,061)	\$ 919,611
Schedule of cash and cash equivalents:			
Beginning of period:			
Unrestricted cash and cash equivalents	\$ 34,290	\$ 11,091	\$ 45,381
Restricted cash and cash equivalents	1,164,575	-	1,164,575
	\$ 1,198,865	\$ 11,091	\$ 1,209,956
End of period:			
Unrestricted cash and cash equivalents	\$ 68,410	\$ 10,571	\$ 78,981
Restricted cash and cash equivalents	1,109,860	-	1,109,860
	\$ 1,178,270	\$ 10,571	\$ 1,188,841

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, 2019 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, 2019 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, 2019, to finance the General Fund operations were \$.238 per \$100 valuation for property, and \$.200 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.

Allowance for Uncollectible Accounts

Water and Sewer receivables at June 30, 2019, are net of allowance for uncollectable. The allowance for uncollectable was \$33,942 at June 30, 2019.

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, 2019, 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, 2019.

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 \$1,551,886. Cash was secured by \$763,056 of Federal Depository Insurance, with an additional \$839,375 covered by collateral agreements and collateral held by the pledging banks' trust departments in the City's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

	Bank Balance	Book Balance
Bank	<u>\$ 1,602,431</u>	\$ 1,550,967
Cash on hand		<u>919</u>
Total		<u>\$ 1,551,886</u>
Breakdown per financial statements:		
Governmental funds		\$ 363,045
Proprietary funds		<u>1,188,841</u>
Total		<u>\$ 1,551,886</u>

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, consisted of the following:

Governmental Activities

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
Capital assets, not being depreciated:				
Land and land improvements	\$ 536,118	\$ -	\$ -	\$ 536,118
Construction in progress	<u>469,187</u>	<u>31,697</u>	<u>-</u>	<u>500,884</u>
Total capital assets, not being depreciated	<u>1,005,305</u>	<u>31,697</u>	<u>-</u>	<u>1,037,002</u>
Capital assets, being depreciated:				
Buildings and improvements	1,198,505	-	-	1,198,505
Infrastructure (streets & sidewalks)	316,002	144,229	-	460,231
Vehicles	1,629,125	-	148,691	1,480,434
Equipment	<u>605,818</u>	<u>78,823</u>	<u>-</u>	<u>684,641</u>
Total capital assets being depreciated	3,749,450	223,052	148,691	3,823,811
Less accumulated depreciation for:				
Buildings and improvements	(464,644)	(37,115)	-	(501,759)
Infrastructure (streets)	(20,917)	(12,640)	-	(33,557)
Vehicles	(1,120,737)	(86,686)	(148,691)	(1,058,732)
Equipment	<u>(371,854)</u>	<u>(37,631)</u>	<u>-</u>	<u>(409,485)</u>
Total accumulated depreciation	<u>(1,978,152)</u>	<u>(174,072)</u>	<u>(148,641)</u>	<u>(2,003,533)</u>
Total capital assets being depreciated, net	<u>1,771,298</u>	<u>48,980</u>	<u>-</u>	<u>1,820,278</u>
Total capital assets, net	<u>\$2,776,603</u>	<u>\$ 80,677</u>	<u>\$ -</u>	<u>\$2,857,280</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to governmental functions as follows:

General government	\$ 21,755
Public safety	95,358
Streets	22,901
Sanitation	<u>34,058</u>
	<u>\$ 174,072</u>

Business-Type Activities

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 202,452	\$ -	\$ -	\$ 202,452
Construction in progress	<u>1,598,045</u>	<u>1,100,853</u>	<u>1,114,824</u>	<u>1,584,074</u>
Total capital assets, not being depreciated	<u>1,800,497</u>	<u>1,100,853</u>	<u>1,114,824</u>	<u>1,786,526</u>
Capital assets, being depreciated:				
Water plant and equipment	17,014,678	557,412	-	17,572,090
Sewer plant and equipment	10,034,405	557,412	-	10,591,817
Swimming pool buildings	45,136	-	-	45,136
Swimming pool equipment	133,267	-	-	133,267
Office equipment	105,540	-	-	105,540
Trucks and equipment	<u>515,338</u>	<u>-</u>	<u>58,266</u>	<u>457,072</u>
Total capital assets being depreciated	27,848,364	1,114,824	58,266	28,904,922
Less accumulated depreciation for:				
Water plant and equipment	(5,344,309)	(333,389)	-	(5,677,698)
Sewer plant and equipment	(4,312,784)	(253,021)	-	(4,565,805)
Swimming pool buildings	(38,962)	(750)	-	(39,712)
Swimming pool equipment	(115,521)	(2,258)	-	(117,779)
Office equipment	(104,813)	(221)	-	(105,034)
Trucks and equipment	<u>(442,460)</u>	<u>(15,284)</u>	<u>(58,266)</u>	<u>(399,478)</u>
Total accumulated depreciation	<u>(10,358,849)</u>	<u>(604,923)</u>	<u>(58,266)</u>	<u>(10,905,506)</u>
Total capital assets being depreciated, net	<u>17,489,515</u>	<u>509,901</u>	<u>-</u>	<u>17,999,416</u>
Total capital assets, net	<u>\$19,290,012</u>	<u>\$ 1,610,754</u>	<u>\$ 1,114,824</u>	<u>\$19,785,942</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to business-type activities as follows:

Water and sewer	\$ 601,915
Swimming pool	<u>3,008</u>
	<u>\$ 604,923</u>

NOTE E – LONG – TERM DEBT

The City's long term debt at June 30, 2019 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>Balances</u> <u>6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>6/30/2019</u>	<u>Due Within</u> <u>One Year</u>
BB&T (garbage truck)	\$ 197,446	\$ -	\$ (30,817)	\$ 166,629	\$ 31,624
KLC (city garage lot)	34,043	-	(7,769)	26,274	8,125
Lemaster loan (Vinson property)	75,239	-	(18,119)	57,120	18,572
KACO Finance (energy improvements)	283,489	-	(15,791)	267,698	16,543
Compensated absences	17,245	21,592	(17,245)	21,592	21,592
Net pension liability	1,175,403	71,282	-	1,246,685	-
Net OPEB liability	403,697	-	(40,274)	363,423	-
Total governmental activities	<u>\$ 2,186,562</u>	<u>\$ 92,874</u>	<u>\$ (130,015)</u>	<u>\$ 2,149,421</u>	<u>\$ 96,456</u>

Repayment of principal and interest maturities is principally made from various taxes and service fees collected. Also, for governmental activities, the pension obligations and other post-employment benefit obligations are generally liquidated by the general fund.

NOTE E – LONG – TERM DEBT – CONTINUED

Principal and interest payments to be made on all long-term debt at June 30, 2019, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2020	\$ 74,864	\$ 74,864	\$ 14,724	\$ 89,588
2021	77,285	77,285	12,455	89,740
2022	79,001	79,001	10,041	89,042
2023	53,734	53,734	7,592	61,326
2024	54,623	54,623	5,927	60,550
2025-2029	106,778	106,778	17,742	124,520
2030-2032	<u>71,436</u>	<u>71,436</u>	<u>3,339</u>	<u>74,775</u>
	<u>\$ 517,721</u>	<u>\$ 517,721</u>	<u>\$ 71,820</u>	<u>\$589,541</u>

Business – Type Activities

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity 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.	\$ 44,870	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.	742,000	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.	355,500	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>255,000</u>	.8% to 4.2%	01/2025
	1,397,370		

Notes:

Notes payable to Kentucky Infrastructure Authority for sewer upgrades, due in monthly installments of principal and interest. (C98-02)	80,000	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)	752,603	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)	102,009	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)	980,744	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)	327,137	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)	1,512,302	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)	702,094	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>1,218,360</u>	1.00%	06/2033
	<u>5,675,249</u>		
	<u>\$7,072,619</u>		

NOTE E – LONG – TERM DEBT – CONTINUED

	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2019</u>	<u>Due Within One Year</u>
Bond payable – 1989 issue	\$ 48,260	\$ -	\$ (3,390)	\$ 44,870	\$ 3,570
Bond payable – 2002 issue	763,500	-	(21,500)	742,000	22,000
Bond payable – 2007 issue	362,000	-	(6,500)	355,500	7,000
Bond payable – 2010D issue	290,000	-	(35,000)	255,000	40,000
Note payable – KIA (C98-02)	105,000	-	(25,000)	80,000	25,000
Note payable – KIA (A11-02)	798,885	-	(46,282)	752,603	46,746
Note payable – KIA (F02-06)	1,171,091	-	(190,347)	980,744	192,255
Note payable – KIA (A209-10)	353,850	-	(26,713)	327,137	26,981
Note payable – KIA (B08-07)	748,344	-	(46,250)	702,094	46,746
Note payable – KIA (F10-03)	1,299,047	-	(80,687)	1,218,360	81,496
Note payable – KIA (C97-02)	151,658	-	(49,649)	102,009	50,547
Note payable – KACO (1BP2017B))	1,601,511	-	(89,209)	1,512,302	93,457
Compensated absences	34,661	15,361	(34,661)	15,361	15,361
Net pension liability	1,151,346	-	(14,530)	1,136,816	-
Net OPEB liability	395,434	-	(64,041)	331,393	-
Total business-type activities	<u>\$9,274,587</u>	<u>\$ 15,361</u>	<u>\$ (733,759)</u>	<u>\$8,556,189</u>	<u>\$ 651,159</u>

Future water and sewer revenues, net of specified operating expenses, will repay these revenue bonds and loans payable.

Principal and interest payments to be made on all long-term debt at June 30, 2019, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2020	\$ 72,570	\$ 563,228	\$ 635,798	\$ 150,553	\$ 786,351
2021	74,240	572,375	646,615	135,973	783,588
2022	74,930	529,939	604,869	123,533	728,402
2023	76,630	512,502	589,132	111,122	700,254
2024	82,830	520,856	603,686	99,605	703,291
2025-2029	261,170	1,687,435	1,948,605	358,465	2,307,070
2030-2034	222,500	1,288,914	1,511,414	169,959	1,681,373
2035-2039	264,500	-	264,500	77,887	342,387
2040-2044	225,000	-	225,000	29,423	254,423
2045-2046	43,000	-	43,000	2,681	45,681
	<u>\$1,397,370</u>	<u>\$5,675,249</u>	<u>\$7,072,619</u>	<u>\$1,260,201</u>	<u>\$8,332,820</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 \$232,650 was received through June 30, 2019. 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	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	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 spouse will receive the higher of the normal death benefit or \$10,000 plus 75% of the decedent's monthly average pay until the spouse's death or remarriage. If surviving spouse remarries, the monthly payment shall be recalculated to 25% of the deceased member's monthly average pay. Each eligible dependent child will receive a monthly benefit equal to 50% of the decedent's monthly average pay. The amount increases to 65% if the decedent has two (2) dependent children; and 75% if three (3) or more children. Payments will be divided equally among all the 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, 2019, was 16.22 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 \$157,326 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of \$2,383,501 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.039 percent, which was a decrease of 0.001 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$344,594. At June 30, 2019, 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	\$ 77,743	\$ 34,890
Changes of assumptions	232,937	-
Net difference between projected and actual earnings on pension plan investments	-	28,579
Changes in proportion and differences between City contributions and proportionate share of contributions	22,390	87,966
City contributions subsequent to the measurement date	<u>157,326</u>	<u>-</u>
Total	<u>\$ 490,396</u>	<u>\$ 151,435</u>

\$157,326 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, 2020. 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:

2020	\$ 155,601
2021	70,411
2022	(31,584)
2023	(12,793)
2024	-
Thereafter	-

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2018 are as follows:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Amortization Period	27 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 Large Cap Equity	5.00%	4.50%
US Mid Cap Equity	6.00%	4.50%
US Small Cap Equity	6.50%	5.50%
International Developed Equity	12.50%	6.50%
Emerging Markets Equity	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%

NOTE F – DEFINED PENSION – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	100.00%	6.09%

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 25 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	\$3,000,582	\$2,383,501	\$1,866,497

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2018 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2019, the City reported a payable of \$20,177 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. 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, 2019, was 5.26 percent of covered payroll. Contributions to the OPEB plan from the City were \$51,020 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of \$694,816 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.039 percent, which was a decrease of 0.001 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$86,150. At June 30, 2019, 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	\$ -	\$ 80,971
Changes of assumptions	138,765	1,606
Net difference between projected and actual earnings On OPEB plan investments	-	47,860
Changes in proportion and differences between City contributions and proportionate share of contributions	4,063	16,928
City contributions subsequent to the measurement date	51,020	-
Total	<u>\$ 193,848</u>	<u>\$ 147,365</u>

NOTE G – OPEB PLAN – CONTINUED

\$51,020 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, 2020.

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:

2020	\$ (23)
2021	(23)
2022	(23)
2023	9,273
2024	(8,526)
Thereafter	(5,215)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2018 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	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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 Large Cap Equity	5.00%	4.50%
US Mid Cap Equity	6.00%	4.50%
US Small Cap Equity	6.50%	5.50%
International Developed Equity	12.50%	6.50%
Emerging Market Debt	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	100.00%	6.09%

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	\$517,298	\$694,816	\$904,060

Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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 3.62%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018. 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 5.85%, 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 (4.85%) or one percentage-point higher (6.85%) than the current rate:

NOTE G – OPEB PLAN – CONTINUED

	<u>1.0% Decrease (4.85%)</u>	<u>Current Discount Rate (5.85%)</u>	<u>1.0% Increase (6.85%)</u>
City's proportionate share of the net OPEB liability	\$902,455	\$694,816	\$517,946

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2018 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 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 – 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	\$ 541

NOTE N – 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>
2020	\$ 38,742
2021	38,342
2022	27,275
2023	26,650
2024	25,900
2025-2026	<u>5,150</u>
Total minimum lease payments	162,059
Less amount representing interest	<u>(12,678)</u>
Present value of net minimum lease payments	<u>\$ 149,381</u>

Following is a summary of the property held by the City under the capital lease at June 30, 2019:

	<u>Governmental Activities</u>
Fire trucks (Kentucky Bond Corporation)	\$ 235,998
Police vehicles (Magnolia Bank)	58,811
Less accumulated depreciation	<u>(140,568)</u>
	<u>\$ 154,241</u>

**CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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NOTE N – CAPITAL LEASES – CONTINUED

	<u>Amount Outstanding 6/30/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2019</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 183,194	\$ -	\$ (33,813)	\$ 149,381	\$ 34,390

NOTE P – SUBSEQUENT EVENTS

Management has evaluated and has not recognized any subsequent events through February 7, 2020, the date the financial statements were available to be issued.

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, 2019, 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 7, 2020, 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 2019-001 below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

2019-001 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 7, 2020

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 387,500	\$ 387,500	\$ 367,074	\$ (20,426)
Motor vehicle tax	22,500	22,500	26,199	3,699
Taxes on insurance premiums	358,853	358,853	384,254	25,401
Occupational licenses	12,500	12,500	12,337	(163)
Franchise fees	41,000	41,000	46,480	5,480
Telecommunication tax	5,725	5,725	5,870	145
ABC fees	107,750	107,750	110,746	2,996
Law enforcement fees	7,000	7,000	6,797	(203)
Municipal road aid	50,150	50,150	48,842	(1,308)
Police incentive	32,242	32,242	27,799	(4,443)
Fire state aid	11,000	11,000	11,000	-
Coal and mineral severance	72,258	72,258	75,994	3,736
Other grants	73,392	108,866	82,356	(26,510)
Sanitation fees	378,000	396,000	389,042	(6,958)
Fire district contract	39,400	39,400	29,400	(10,000)
Arrest fees	1,700	1,700	2,205	505
Interest	125	125	539	414
Rent	6,500	6,500	5,294	(1,206)
Donations	11,800	11,800	12,479	679
Other receipts	52,705	52,705	91,491	38,786
Total Revenues	<u>1,672,100</u>	<u>1,725,574</u>	<u>1,736,198</u>	<u>10,624</u>
Expenditures:				
General government:				
Salaries and wages	92,898	92,898	99,440	(6,542)
Payroll taxes	7,456	7,456	7,109	347
Retirement	19,955	19,955	18,646	1,309
Life and health insurance	48,913	48,913	51,475	(2,562)
Insurance	14,110	14,110	7,449	6,661
Advertising and printing	3,500	3,500	2,007	1,493
Professional fees	20,000	20,000	22,451	(2,451)
Repairs and maintenance	1,500	1,500	99	1,401
Utilities and communications	11,295	11,295	9,863	1,432
Other contractual services	16,000	16,000	14,932	1,068
Community center expenses	5,000	5,000	3,589	1,411
Materials and supplies	11,500	11,500	6,226	5,274
Other expenses	17,500	17,500	23,204	(5,704)
Debt service:				
Interest expense	11,945	11,945	11,945	-
Principal retirement	33,910	33,910	33,910	-
Capital outlays	-	35,474	96,202	(60,728)
Total General Government	<u>315,482</u>	<u>350,956</u>	<u>408,547</u>	<u>(57,591)</u>

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

40

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Salaries and wages	243,313	243,313	228,576	14,737
Payroll taxes	19,223	19,223	17,086	2,137
Retirement	41,687	41,687	46,494	(4,807)
Life and health insurance	73,559	73,559	63,182	10,377
Insurance	15,850	15,850	18,826	(2,976)
Professional fees	250	250	361	(111)
Repairs and maintenance	3,000	3,000	5,831	(2,831)
Utilities and communications	6,500	6,500	8,136	(1,636)
Other contractual services	2,000	2,000	750	1,250
Materials and supplies	27,800	27,800	23,855	3,945
Other expenses	14,000	14,000	6,696	7,304
Debt service:				
Interest expense	1,804	1,804	1,804	-
Principal retirement	13,813	13,813	13,813	-
Capital outlays	4,000	4,000	-	4,000
Total Police	<u>466,799</u>	<u>466,799</u>	<u>435,410</u>	<u>31,389</u>
Fire:				
Salaries and wages	11,819	11,819	11,624	195
Payroll taxes	985	985	944	41
Insurance	26,275	26,275	26,278	(3)
Repairs and maintenance	10,000	10,000	7,927	2,073
Utilities and communications	12,000	12,000	15,568	(3,568)
Other contractual services	750	750	200	550
Materials and supplies	25,500	25,500	12,645	12,855
Other expenses	26,965	26,965	21,433	5,532
Debt service:				
Interest expense	4,138	4,138	4,325	(187)
Principal retirement	20,000	20,000	20,000	-
Capital outlays	76,642	76,642	33,284	43,358
Total Fire	<u>215,074</u>	<u>215,074</u>	<u>154,228</u>	<u>60,846</u>
Street:				
Salaries and wages	80,235	80,235	83,647	(3,412)
Payroll taxes	6,488	6,488	6,253	235
Retirement	17,234	17,234	17,454	(220)
Life and health insurance	36,779	36,779	31,675	5,104
Insurance	8,500	8,500	8,229	271

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

41

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Repairs and maintenance	5,000	5,000	1,510	3,490
Utilities and communications	63,400	63,400	58,051	5,349
Other contractual services	4,000	4,000	1,910	2,090
Materials and supplies	31,000	31,000	35,437	(4,437)
Other expenses	9,519	9,519	7,727	1,792
Debt service:				
Interest expense	675	675	624	51
Principal retirement	3,885	3,885	3,885	-
Capital outlays	104,000	104,000	100,913	3,087
Total Street	370,715	370,715	357,315	13,400
Sanitation:				
Salaries and wages	94,214	94,214	97,723	(3,509)
Payroll taxes	7,658	7,658	7,262	396
Retirement	20,237	20,237	20,474	(237)
Life and health insurance	49,039	49,039	42,253	6,786
Insurance	19,500	19,500	16,276	3,224
Repairs and maintenance	5,000	5,000	4,008	992
Utilities and communications	2,500	2,500	1,822	678
Other contractual services	80,000	80,000	80,894	(894)
Materials and supplies	30,500	30,500	35,388	(4,888)
Other expenses	1,500	1,500	2,003	(503)
Debt service:				
Interest expense	5,425	5,425	5,374	51
Principal retirement	34,701	34,701	34,701	-
Capital outlays	12,000	24,000	24,350	(350)
Total Sanitation	362,274	374,274	372,528	1,746
Alcohol Beverage Control:				
Salaries and wages	31,595	31,595	32,965	(1,370)
Payroll taxes	2,517	2,517	2,482	35
Retirement	6,787	6,787	6,805	(18)
Life and health insurance	12,260	12,260	12,730	(470)
Insurance	1,430	3,430	2,767	663
Repairs and maintenance	500	500	-	500
Utilities and communications	700	1,700	1,290	410
Materials and supplies	3,300	3,300	3,188	112
Other expenses	8,150	11,150	9,572	1,578
Total Alcohol Beverage Control	67,239	73,239	71,799	1,440
Total Expenditures	1,797,583	1,851,057	1,799,827	49,790

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

42

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other Financing Sources/(Uses):				
Proceeds from sale of capital assets	-	-	9,844	9,844
Proceeds from insurance	-	-	10,184	10,184
Transfers to Swimming Pool	<u>(4,000)</u>	<u>(4,000)</u>	<u>(541)</u>	<u>3,459</u>
Total Other Financing Uses	<u>(4,000)</u>	<u>(4,000)</u>	<u>19,487</u>	<u>23,487</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (129,483)</u>	<u>\$ (129,483)</u>	(44,142)	<u>\$ 85,341</u>
Fund balance - beginning			<u>475,883</u>	
Fund balance - ending			<u>\$ 431,741</u>	

CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2019

43

	<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>	<u>6/30/2019</u>	
City's proportion of the net pension liability (asset)	0.039751%	0.039134%	
City's proportionate share of the net pension liability (asset)	\$ 2,326,749	\$ 2,383,501	
City's covered-employee payroll	\$ 969,990	\$ 969,955	
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	239.87%	245.73%	
Plan fiduciary net position as a percentage of the total pension liability	53.30%	53.54%	

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, 2019**

44

	<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>	<u>6/30/2019</u>	
Contractually required contribution	\$ 140,454	\$ 157,326	
Contributions in relation to the contractually required contribution	<u>140,454</u>	<u>157,326</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 969,990	\$ 969,955	
Contributions as a percentage of covered-employee payroll	14.48%	16.22%	

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, 2019

45

NOTE A – CHANGES OF BENEFIT TERMS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

NOTE B – CHANGES OF ASSUMPTIONS

There have been no changes in actuarial assumptions since June 30, 2017. The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2018

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 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

CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2019

	<u>6/30/2018</u>	<u>6/30/2019</u>
City's proportion of the net OPEB liability (asset)	0.039751%	0.039134%
City's proportionate share of the net OPEB liability (asset)	\$ 799,131	\$ 694,816
City's covered-employee payroll	\$ 969,990	\$ 969,955
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	82.39%	71.63%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%

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, 2019**

47

	<u>6/30/2018</u>	<u>6/30/2019</u>
Contractually required contribution	\$ 45,590	\$ 51,020
Contributions in relation to the contractually required contribution	<u>45,590</u>	<u>51,020</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 969,990	\$ 969,955
Contributions as a percentage of covered-employee payroll	4.70%	5.26%

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, 2019

48

NOTE A – CHANGES OF BENEFIT TERMS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

NOTE B – CHANGES OF ASSUMPTIONS

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability).

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2018

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 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	
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 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.

SUPPLEMENTARY AND OTHER INFORMATION

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

49

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Salaries and wages	\$ 322,152	\$ 133,223	\$ 17,059	\$ 472,434
Payroll taxes	25,558	10,160	1,301	37,019
Employee benefits	216,306	88,839	-	305,145
Insurance	38,967	22,037	-	61,004
Lab tests	27,977	11,134	-	39,111
Legal and professional	15,387	12,912	-	28,299
Materials and supplies	213,387	72,148	9,374	294,909
Miscellaneous	109,570	63,974	3,449	176,993
Office expense	24,296	11,528	936	36,760
Repairs and maintenance	220,425	187,059	3,781	411,265
Taxes	-	-	112	112
Telephone	7,974	4,755	354	13,083
Truck expense	31,458	5,556	-	37,014
Utilities	212,356	170,403	2,587	385,346
Depreciation	338,700	263,215	3,008	604,923
TOTAL OPERATING EXPENSES	<u>\$ 1,804,513</u>	<u>\$ 1,056,943</u>	<u>\$ 41,961</u>	<u>\$2,903,417</u>