

CITY OF LOUISA, KENTUCKY

FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORTS, AND
SUPPLEMENTARY INFORMATION

June 30, 2020



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, 2020, 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, 2020, 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 9, 2021 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 9, 2021

**CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020**

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 265,069	\$ 1,195,405	\$ 1,460,474
Taxes receivable	120,350	-	120,350
Grants receivable	5,269	6,184	11,453
Sanitation fees receivable	56,259	-	56,259
Other receivables	51,838	-	51,838
Accounts receivable	-	390,794	390,794
Unbilled receivables	-	161,116	161,116
Inventory	-	85,636	85,636
Prepaid items	15,123	34,222	49,345
Capital assets:		-	
Land and construction-in-progress	573,726	688,457	1,262,183
Other capital assets, net of accumulated depreciation	1,855,866	20,363,414	22,219,280
Total Assets	2,943,500	22,925,228	25,868,728
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions & OPEB	424,698	369,417	794,115
LIABILITIES			
Accounts payable	42,466	715,065	757,531
Accrued expenses	55,424	66,094	121,518
Accrued compensated absences	20,320	24,454	44,774
Accrued interest payable	3,980	49,954	53,934
Customer deposits	-	62,351	62,351
Due to City of Louisa - sanitation fees	-	56,259	56,259
Long-term liabilities:			
Net pension liability	1,421,589	1,261,236	2,682,825
Net OPEB liability	339,873	301,541	641,414
Due within one year	122,346	675,353	797,699
Due in more than one year	466,807	6,597,048	7,063,855
Total Liabilities	2,472,805	9,809,355	12,282,160
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions & OPEB	169,845	209,754	379,599
NET POSITION			
Net investment in capital assets	1,840,439	13,779,470	15,619,909
Restricted for:			
Debt service	10,256	67,179	77,435
Capital asset repair and replacement	-	838,563	838,563
Special revenue	8,510	-	8,510
Public safety	1,811	-	1,811
Unrestricted (deficit)	(1,135,468)	(1,409,676)	(2,545,144)
Total Net Position	\$ 725,548	\$ 13,275,536	\$ 14,001,084

See accompanying notes to basic financial statements.

**CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

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	\$ 354,702	\$ -	\$ -	\$ 2,200	\$ (352,502)	\$ -	\$ (352,502)
Public safety	726,255	30,380	892	-	(694,983)	-	(694,983)
Streets	301,662	-	-	4,500	(297,162)	-	(297,162)
Sanitation	376,151	425,877	-	-	49,726	-	49,726
Alcohol Beverage Control	82,123	-	-	-	(82,123)	-	(82,123)
Youth programs	608	-	-	-	(608)	-	(608)
Interest on long-term debt	20,841	-	-	-	(20,841)	-	(20,841)
Total governmental activities	1,862,342	456,257	892	6,700	(1,398,493)	-	(1,398,493)
Business-type activities:							
Water and sewer	3,217,959	3,159,081	-	-	-	(58,878)	(58,878)
Swimming pool	22,852	22,321	-	-	-	(531)	(531)
Total business-type activities	3,240,811	3,181,402	-	-	-	(59,409)	(59,409)
Total primary government	\$ 5,103,153	\$ 3,637,659	\$ 892	\$ 6,700	(1,398,493)	(59,409)	(1,457,902)
General revenues:							
Property taxes					351,736	-	351,736
Motor vehicle taxes					27,410	-	27,410
Insurance premium taxes					408,178	-	408,178
Telecommunication taxes					15,327	-	15,327
Occupational licenses					13,288	-	13,288
Franchise fees					50,984	-	50,984
ABC fees					138,098	-	138,098
Intergovernmental revenue					170,963	264,184	435,147
Rental income					3,811	-	3,811
Interest income					523	2,252	2,775
Gain on disposal of capital assets					-	-	-
Insurance proceeds					8,397	-	8,397
Miscellaneous					153,048	-	153,048
Transfers:					(469,881)	469,881	-
Total general revenues and transfers					871,882	736,317	1,608,199
Change in net position					(526,611)	676,908	150,297
Net position - beginning					1,252,159	12,598,628	13,850,787
Net position - ending					\$ 725,548	\$ 13,275,536	\$ 14,001,084

See accompanying notes to basic financial statements.

**CITY OF LOUISA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

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	General Fund	Youth Programs Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 256,559	\$ 8,510	\$ 265,069
Receivables:			
Taxes	120,350	-	120,350
Grants	5,269	-	5,269
Sanitation fees	56,259	-	56,259
Other	51,838	-	51,838
Prepaid items	15,123	-	15,123
Total Assets	\$ 505,398	\$ 8,510	\$ 513,908
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 42,466	\$ -	\$ 42,466
Accrued payroll	16,687	-	16,687
Accrued payroll taxes	1,742	-	1,742
Accrued compensated absences	20,320	-	20,320
Other accrued liabilities	31,084	-	31,084
Total Liabilities	112,299	-	112,299
Fund Balances:			
Restricted for:			
Public safety	1,811	-	1,811
Youth programs	-	8,510	8,510
Debt service	10,256	-	10,256
Unassigned	381,032	-	381,032
Total Fund Balances	393,099	8,510	401,609
Total Liabilities and Fund Balances	\$ 505,398	\$ 8,510	\$ 513,908

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, 2020

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Fund Balances - Total Governmental Funds **\$ 401,609**

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	4,609,640
Less: accumulated depreciation	(2,180,048)

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. (3,980)

Pension contributions after measurement date are reported as a
deferred outflow of resources: 132,629

Net pension & net OPEB liability is not due and payable in the current period and,
therefore, is not reported in governmental funds: (1,761,462)

Other OPEB related accruals (5,911)

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	292,069
Deferred pension & OPEB inflows of resources	(169,845)

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds: (589,153)

Net Position of Governmental Activities **\$ 725,548**

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, 2020

7

	General Fund	Youth Programs Fund	Total Governmental Funds
Revenues:			
Taxes:			
Property	\$ 351,736	\$ -	\$ 351,736
Motor vehicle	27,410	-	27,410
Insurance premium	408,178	-	408,178
Telecommunication	15,327	-	15,327
Occupational licenses	13,288	-	13,288
Franchise fees	50,984	-	50,984
ABC fees	138,098	-	138,098
Intergovernmental revenues	170,963	-	170,963
Grants	7,592	-	7,592
Charges for services	456,257	-	456,257
Rental income	3,811	-	3,811
Interest income	523	-	523
Donations	9,250	1,039	10,289
Miscellaneous revenues	142,759	-	142,759
Total revenues	1,796,176	1,039	1,797,215
Expenditures:			
Current:			
General government	307,892	-	307,892
Public safety	575,256	-	575,256
Streets	251,981	-	251,981
Sanitation	316,518	-	316,518
Alcohol beverage control	73,739	-	73,739
Youth programs	-	608	608
Debt service:			
Interest	21,172	-	21,172
Principal retirement	120,565	-	120,565
Capital outlay	218,014	-	218,014
Total expenditures	1,885,137	608	1,885,745
Excess (deficiency) of revenues over expenditures	(88,961)	431	(88,530)
Other financing sources (uses):			
Proceeds from borrowing	42,616	-	42,616
Proceeds from insurance	8,397	-	8,397
Transfers Out	(694)	-	(694)
Total other financing sources (uses)	50,319	-	50,319
Net change in fund balances	(38,642)	431	(38,211)
Fund balances - beginning	431,741	8,079	439,820
Fund balances - ending	\$ 393,099	\$ 8,510	\$ 401,609

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, 2020**

8

Net Change in Fund Balances - Total Governmental Funds **\$ (38,211)**

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	218,014
Depreciation expense	(176,515)

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.	331
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The net effect of various miscellaneous transactions involving capital assets:	(469,187)
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Changes in pension expense are reported only in the statement of activities	(138,992)
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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	(42,616)
Principal paid	120,565

Change in Net Position of Governmental Activities	<u>\$ (526,611)</u>
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See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

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	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 281,591	\$ 8,072	\$ 289,663
Customer accounts receivable, net	390,794	-	390,794
Unbilled receivables	161,116	-	161,116
Grant receivables	6,184	-	6,184
Inventory	85,636	-	85,636
Prepaid items	34,222	-	34,222
Total current assets	959,543	8,072	967,615
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	905,742	-	905,742
Capital assets:			
Land	177,452	25,000	202,452
Construction work in progress	486,005	-	486,005
Capital assets, net of depreciation	20,345,510	17,904	20,363,414
Total non-current assets	21,914,709	42,904	21,957,613
Total assets	22,874,252	50,976	22,925,228
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions	256,381		256,381
Deferred outflows related to OPEB	113,036	-	113,036
Total deferred outflows of resources	369,417	-	369,417
LIABILITIES			
Current liabilities:			
Accounts payable	715,065	-	715,065
Compensated absences	24,454	-	24,454
Accrued interest payable	49,954	-	49,954
Other accrued liabilities	66,094	-	66,094
Customer deposits	62,351	-	62,351
Due to City of Louisa - sanitation fees	56,259	-	56,259
Total current liabilities	974,177	-	974,177
Payable from restricted assets:			
Current portion of bonds and notes payable	675,353	-	675,353
Total liabilities payable from restricted assets	675,353	-	675,353

See accompanying notes to basic financial statements.

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2020

10

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Totals
Long-term liabilities:			
Net pension liability	1,261,236	-	1,261,236
Net OPEB liability	301,541	-	301,541
Construction advances	232,650	-	232,650
Bonds and notes payable	7,039,751	-	7,039,751
	8,835,178	-	8,835,178
Less current portion	(675,353)	-	(675,353)
Total long-term liabilities	8,159,825	-	8,159,825
Total liabilities	9,809,355	-	9,809,355
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions	79,785	-	79,785
Deferred inflows related to OPEB	129,969	-	129,969
Total deferred inflows of resources	209,754	-	209,754
NET POSITION			
Net investment in capital assets	13,736,566	42,904	13,779,470
Restricted			
Debt service	67,179	-	67,179
Capital asset repair and replacement	838,563	-	838,563
Unrestricted	(1,417,748)	8,072	(1,409,676)
Total net position	\$ 13,224,560	\$ 50,976	\$ 13,275,536

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, 2020

11

	Business-type Activities - Enterprise Funds		
	Water & Sewer	Swimming Pool	Total
Operating revenues:			
Water revenues	\$ 1,955,153	\$ -	\$ 1,955,153
Sewer revenues	1,078,724	-	1,078,724
Pool receipts	-	18,821	18,821
Other operating revenues	125,204	3,500	128,704
Total operating revenues	3,159,081	22,321	3,181,402
Operating expenses:			
Water	2,045,126	-	2,045,126
Sewer	1,019,539	-	1,019,539
Swimming Pool	-	22,852	22,852
Total operating expenses	3,064,665	22,852	3,087,517
Operating income (loss)	94,416	(531)	93,885
Non-operating revenues (expenses):			
Interest income	2,252	-	2,252
Interest expense	(153,294)	-	(153,294)
Total non-operating revenues (expenses)	(151,042)	-	(151,042)
Income (loss) before contributions and transfers	(56,626)	(531)	(57,157)
Contributions in aid of construction	264,184	-	264,184
Transfers from General Fund	469,187	694	469,881
Total contributions and transfers	733,371	694	734,065
Change in net position	676,745	163	676,908
Net position, beginning of year	12,547,815	50,813	12,598,628
Net position, end of year	\$ 13,224,560	\$ 50,976	\$13,275,536

See accompanying notes to basic financial statements.

**CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

12

	Business-type Activities - Enterprise Funds		
	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Cash flows from operating activities:			
Cash inflows:			
Payments received from customers	<u>\$ 3,111,839</u>	<u>\$ 22,321</u>	<u>\$ 3,134,160</u>
Total cash provided	<u>3,111,839</u>	<u>22,321</u>	<u>3,134,160</u>
Cash outflows:			
Payments for salaries and benefits	814,489	13,855	828,344
Payments to suppliers for goods and services	<u>1,539,348</u>	<u>11,659</u>	<u>1,551,007</u>
Total cash used	<u>2,353,837</u>	<u>25,514</u>	<u>2,379,351</u>
Net cash provided (used) by operating activities	<u>758,002</u>	<u>(3,193)</u>	<u>754,809</u>
Cash flows from noncapital financing activities:			
Transfers from General Fund	<u>-</u>	<u>694</u>	<u>694</u>
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>694</u>	<u>694</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(861,667)	-	(861,667)
Capital contributions received	300,180	-	300,180
Principal payments on debt	(635,798)	-	(635,798)
Proceeds from borrowings	602,930	-	602,930
Interest paid on long-term debt	<u>(156,836)</u>	<u>-</u>	<u>(156,836)</u>
Net cash provided (used) by capital and related financing activities	<u>(751,191)</u>	<u>-</u>	<u>(751,191)</u>
Cash flows from investing activities:			
Interest received	<u>2,252</u>	<u>-</u>	<u>2,252</u>
Net cash provided (used) by investing activities	<u>2,252</u>	<u>-</u>	<u>2,252</u>
Net cash inflow (outflow) from all activities	9,063	(2,499)	6,564
Cash and cash equivalents at beginning of period	<u>1,178,270</u>	<u>10,571</u>	<u>1,188,841</u>
Cash and cash equivalents at end of period	<u><u>\$ 1,187,333</u></u>	<u><u>\$ 8,072</u></u>	<u><u>\$ 1,195,405</u></u>

See accompanying notes to basic financial statements.

**CITY OF LOUISA, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

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	Business-type Activities - Enterprise Funds		
	<u>Water & Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Reconciliation of utility operating income to net cash provided by operating activities:			
Operating income	\$ 94,416	\$ (531)	\$ 93,885
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	585,876	3,008	588,884
(Increase) decrease in:			
Customer accounts receivable	(15,956)	-	(15,956)
Unbilled revenue	(26,887)	-	(26,887)
Inventory	(197)	-	(197)
Other assets and deferred outflows	(53,306)	-	(53,306)
Increase (decrease) in:			
Accounts payable	9,587	(688)	8,899
Other liabilities and deferred inflows	69,901	(4,982)	64,919
Net pension and OPEB liability	94,568	-	94,568
Net cash provided (used) by operating activities	<u>\$ 758,002</u>	<u>\$ (3,193)</u>	<u>\$ 754,809</u>
Schedule of cash and cash equivalents:			
Beginning of period:			
Unrestricted cash and cash equivalents	\$ 68,410	\$ 10,571	\$ 78,981
Restricted cash and cash equivalents	1,109,860	-	1,109,860
	<u>\$ 1,178,270</u>	<u>\$ 10,571</u>	<u>\$ 1,188,841</u>
End of period:			
Unrestricted cash and cash equivalents	\$ 281,591	\$ 8,072	\$ 289,663
Restricted cash and cash equivalents	905,742	-	905,742
	<u>\$ 1,187,333</u>	<u>\$ 8,072</u>	<u>\$ 1,195,405</u>

See accompanying notes to basic financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Louisa, Kentucky (“City”), operates under a council-mayor form of government. The City receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The council members and mayor are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

Basis of Presentation

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

The City has the following funds:

I. Governmental Fund Types

- A.) The General Fund is the main operating fund of the City. It accounts for financial resources used for public safety (police and fire), streets, sanitation, alcohol beverage control, and general administrative services. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the City.
- B.) Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments) that are legally restricted to expenditure for specified purposes. Special revenue funds for the year ended June 30, 2020 are considered nonmajor funds. The Youth Programs Fund was the only special revenue fund.

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, 2020, to finance the General Fund operations were \$.240 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, 2020, are net of allowance for uncollectable. The allowance for uncollectable was \$94,964 at June 30, 2020.

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, 2020, 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, 2020.

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 \$1,460,474. Cash was secured by \$743,598 of Federal Depository Insurance, with an additional \$769,480 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>\$ 1,513,078</u>	<u>\$ 1,459,681</u>
Cash on hand		<u>793</u>
Total		<u>\$ 1,460,474</u>
Breakdown per financial statements:		
Governmental funds		\$ 265,069
Proprietary funds		<u>1,195,405</u>
Total		<u>\$ 1,460,474</u>

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, consisted of the following:

Governmental Activities

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
Capital assets, not being depreciated:				
Land and land improvements	\$ 536,118	\$ -	\$ -	\$ 536,118
Construction in progress	<u>500,884</u>	<u>5,911</u>	<u>469,187</u>	<u>37,608</u>
Total capital assets, not being depreciated	<u>1,037,002</u>	<u>5,911</u>	<u>469,187</u>	<u>573,726</u>
Capital assets, being depreciated:				
Buildings and improvements	1,198,505	20,936	-	1,219,441
Infrastructure (streets & sidewalks)	460,231	22,809	-	483,040
Vehicles	1,480,434	151,779	-	1,632,213
Equipment	<u>684,641</u>	<u>16,579</u>	<u>-</u>	<u>701,220</u>
Total capital assets being depreciated	3,823,811	212,103	-	4,035,914
Less accumulated depreciation for:				
Buildings and improvements	(501,759)	(37,211)	-	(538,970)
Infrastructure (streets)	(33,557)	(18,409)	-	(51,996)
Vehicles	(1,058,732)	(82,848)	-	(1,141,580)
Equipment	<u>(409,485)</u>	<u>(38,047)</u>	<u>-</u>	<u>(447,532)</u>
Total accumulated depreciation	<u>(2,003,533)</u>	<u>(176,515)</u>	<u>-</u>	<u>(2,180,048)</u>
Total capital assets being depreciated, net	<u>1,820,278</u>	<u>35,588</u>	<u>-</u>	<u>1,855,866</u>
Total capital assets, net	<u>\$2,857,280</u>	<u>\$ 41,499</u>	<u>\$ 469,187</u>	<u>\$2,429,592</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to governmental functions as follows:

General government	\$ 23,412
Public safety	88,222
Streets	28,525
Sanitation	<u>36,356</u>
	<u>\$ 176,515</u>

Business-Type Activities

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 202,452	\$ -	\$ -	\$ 202,452
Construction in progress	<u>1,584,074</u>	<u>1,344,056</u>	<u>2,442,125</u>	<u>486,005</u>
Total capital assets, not being depreciated	<u>1,786,526</u>	<u>1,344,056</u>	<u>2,442,125</u>	<u>688,457</u>
Capital assets, being depreciated:				
Water plant and equipment	17,572,090	2,128,911	-	19,701,001
Sewer plant and equipment	10,591,817	823,971	-	11,415,788
Swimming pool buildings	45,136	-	-	45,136
Swimming pool equipment	133,267	-	-	133,267
Office equipment	105,540	-	-	105,540
Trucks and equipment	<u>457,072</u>	<u>-</u>	<u>-</u>	<u>457,072</u>
Total capital assets being depreciated	<u>28,904,922</u>	<u>2,952,882</u>	<u>-</u>	<u>31,857,804</u>
Less accumulated depreciation for:				
Water plant and equipment	(5,677,698)	(374,619)	-	(6,052,317)
Sewer plant and equipment	(4,565,805)	(197,687)	-	(4,763,492)
Swimming pool buildings	(39,712)	(750)	-	(40,462)
Swimming pool equipment	(117,779)	(2,258)	-	(120,037)
Office equipment	(105,034)	(217)	-	(105,251)
Trucks and equipment	<u>(399,478)</u>	<u>(13,353)</u>	<u>-</u>	<u>(412,831)</u>
Total accumulated depreciation	<u>(10,905,506)</u>	<u>(588,884)</u>	<u>-</u>	<u>(11,494,390)</u>
Total capital assets being depreciated, net	<u>17,999,416</u>	<u>2,363,998</u>	<u>-</u>	<u>20,363,414</u>
Total capital assets, net	<u>\$19,785,942</u>	<u>\$ 3,708,054</u>	<u>\$ 2,442,125</u>	<u>\$21,051,871</u>

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation was charged to business-type activities as follows:

Water and sewer	\$ 585,876
Swimming pool	<u>3,008</u>
	<u>\$ 588,884</u>

NOTE E – LONG – TERM DEBT

The City's long term debt at June 30, 2020 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>6/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>6/30/2020</u>	<u>Due Within</u> <u>One Year</u>
BB&T (garbage truck)	\$ 166,629	\$ -	\$ (31,624)	\$ 135,005	\$ 32,453
KLC (city garage lot)	26,274	-	(8,125)	18,149	8,501
Lemaster loan (Vinson property)	57,120	-	(18,572)	38,548	19,036
KACO Finance (energy improvements)	267,698	-	(16,543)	251,155	17,295
Compensated absences	21,592	20,320	(21,592)	20,320	20,320
Net pension liability	1,246,685	174,904	-	1,421,589	-
Net OPEB liability	<u>363,423</u>	<u>-</u>	<u>(23,550)</u>	<u>339,873</u>	<u>-</u>
Total governmental activities	<u>\$ 2,149,421</u>	<u>\$ 195,224</u>	<u>\$(120,006)</u>	<u>\$ 2,224,639</u>	<u>\$ 97,605</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, 2020, 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>
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	20,303	20,303	4,636	24,939
2026-2030	109,786	109,786	14,869	124,655
2031-2032	<u>48,125</u>	<u>48,125</u>	<u>1,575</u>	<u>49,700</u>
	<u>\$ 442,857</u>	<u>\$ 442,857</u>	<u>\$ 57,095</u>	<u>\$499,952</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.	\$ 41,300	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.	720,000	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.	348,500	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>215,000</u>	.8% to 4.2%	01/2025
	1,324,800		

Notes:

Notes payable to Kentucky Infrastructure Authority for sewer upgrades, due in monthly installments of principal and interest. (C98-02)	55,000	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)	705,857	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)	51,462	1.80%	06/2021
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)	788,489	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)	300,156	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)	1,418,845	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)	655,348	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)	1,136,864	1.00%	06/2033
Note payable to Kentucky Infrastructure Authority for waterline improvement project, due in semi-annual installments of principal and interest, in June and December of each year. (F18-018)	602,930	0.50%	06/2040
	<u>5,714,951</u>		
	<u>\$7,039,751</u>		

NOTE E – LONG – TERM DEBT – CONTINUED

	<u>Balance</u> <u>6/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2020</u>	<u>Due Within</u> <u>One Year</u>
Bond payable – 1989 issue	\$ 44,870	\$ -	\$ (3,570)	\$ 41,300	\$ 3,740
Bond payable – 2002 issue	742,000	-	(22,000)	720,000	23,000
Bond payable – 2007 issue	355,500	-	(7,000)	348,500	7,500
Bond payable – 2010D issue	255,000	-	(40,000)	215,000	40,000
Note payable – KIA (C98-02)	80,000	-	(25,000)	55,000	25,000
Note payable – KIA (A11-02)	752,603	-	(46,746)	705,857	47,215
Note payable – KIA (F02-06)	980,744	-	(192,255)	788,489	194,183
Note payable – KIA (A209-10)	327,137	-	(26,981)	300,156	27,251
Note payable – KIA (B08-07)	702,094	-	(46,746)	655,348	47,247
Note payable – KIA (F10-03)	1,218,360	-	(81,496)	1,136,864	82,313
Note payable – KIA (C97-02)	102,009	-	(50,547)	51,462	51,462
Note payable – KIA (F18-018)	-	602,930	-	602,930	28,738
Note payable – KACO (1BP2017B))	1,512,302	-	(93,457)	1,418,845	97,704
Compensated absences	15,361	24,454	(15,361)	24,454	24,454
Net pension liability	1,136,816	124,420	-	1,261,236	-
Net OPEB liability	331,393	-	(29,852)	301,541	-
Total business-type activities	<u>\$8,556,189</u>	<u>\$ 751,804</u>	<u>\$ (681,011)</u>	<u>\$8,626,982</u>	<u>\$ 699,807</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, 2020, for each of the next five years and thereafter are as follows:

<u>Year Ending</u> <u>6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	<u>Total</u>
2021	\$ 74,240	\$ 601,113	\$ 675,353	\$ 150,553	\$ 825,906
2022	74,930	558,821	633,751	136,973	770,724
2023	76,630	541,528	618,158	123,533	741,691
2024	82,830	550,028	632,858	111,122	743,980
2025	89,050	356,484	445,534	99,605	545,139
2026-2030	213,620	1,864,277	2,077,897	358,465	2,436,362
2031-2035	230,000	1,086,276	1,316,276	169,959	1,486,235
2036-2040	274,500	156,424	430,924	77,887	508,811
2041-2045	187,000	-	187,000	29,423	216,423
2046	22,000	-	22,000	2,681	24,681
	<u>\$1,324,800</u>	<u>\$5,714,951</u>	<u>\$7,039,751</u>	<u>\$1,260,201</u>	<u>\$8,299,952</u>

Construction Advances

The City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the planning, design, and construction of a sewer inflow and infiltration rehabilitation project. The future loan to the City is \$3,028,166 (\$4,028,166 less \$1,000,000 of principal forgiveness) of which \$232,650 was received through June 30, 2020. The loan contract carries a 0.50% 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, 2020, was 19.30 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 \$202,917 for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$2,682,825 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the City's proportion was 0.038 percent, which was a decrease of 0.001 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$414,661. At June 30, 2020, 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	\$ 68,500	\$ 11,336
Changes of assumptions	271,532	-
Net difference between projected and actual earnings on pension plan investments	-	43,248
Changes in proportion and differences between City contributions and proportionate share of contributions	8,023	71,108
City contributions subsequent to the measurement date	<u>202,917</u>	<u>-</u>
Total	<u>\$ 550,972</u>	<u>\$ 125,692</u>

\$202,917 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, 2021. 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:

2021	\$ 148,331
2022	49,456
2023	21,508
2024	3,068
2025	-
Thereafter	-

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2019 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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>
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%

NOTE F – DEFINED PENSION – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

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 24 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	\$3,355,453	\$2,682,825	\$2,122,196

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2019 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2020, the City reported a payable of \$22,140 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. 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, 2020, was 4.76 percent of covered payroll. Contributions to the OPEB plan from the City were \$50,046 for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$641,414 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the City's proportion was 0.038 percent, which was a decrease of 0.001 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized OPEB expense of \$64,638. At June 30, 2020, 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	\$ -	\$ 193,529
Changes of assumptions	189,800	1,270
Net difference between projected and actual earnings On OPEB plan investments	-	28,488
Changes in proportion and differences between City contributions and proportionate share of contributions	3,297	30,620
City contributions subsequent to the measurement date	50,046	-
Total	<u>\$ 243,143</u>	<u>\$ 253,907</u>

NOTE G – OPEB PLAN – CONTINUED

\$50,046 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, 2021.

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:

2021	\$ (10,485)
2022	(10,485)
2023	(1,426)
2024	(18,766)
2025	(16,556)
Thereafter	(3,092)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2019 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increase	3.30% to 10.30%, varies by service
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.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

NOTE G – OPEB PLAN – CONTINUED

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>
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

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	\$477,022	\$641,414	\$840,757

Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 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 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019. 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.

NOTE G – OPEB PLAN – CONTINUED

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 5.68%, 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 (4.68%) or one percentage-point higher (6.68%) than the current rate:

	<u>1.0% Decrease (4.68%)</u>	<u>Current Discount Rate (5.68%)</u>	<u>1.0% Increase (6.68%)</u>
City's proportionate share of the net OPEB liability	\$859,231	\$641,414	\$461,947

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2019 Comprehensive Annual Financial Report at kyret.ky.gov.

NOTE H – COMMITMENTS

The City's water and sewer has a \$4,028,166 l&l rehab project in progress. In 2009, a sewer evaluation study was performed on the entire Louisa sewer system that yielded a delineation of three priority zones for rehabilitation. This project will address the downtown area (Zone 1), which is considered to have the oldest infrastructure and is the highest priority for the City. The planning and design portion paid for camera inspection of approximately 23,250 linear feet of sewer line and determined what measures were necessary to address the issues. The current construction portion will replace storm sewer lines along Lock Avenue and Pike Street in downtown Louisa, with intent to separate the combined sewer in parts of the area and eliminate other inflow and infiltration concerns.

The project is being funded with a \$4,028,166 Kentucky Infrastructure Authority (KIA) loan. Principal forgiveness will be \$1,000,000 leaving \$3,028,166 being amortized over 20 years at .50% interest upon completion of the project.

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	\$ 694

There was a \$469,187 capital asset transfer from governmental activities to the water and sewer business type activities upon completion of various construction projects.

NOTE N – CAPITAL LEASES

The City entered into lease agreements on April 10, 2018 and March 10, 2020 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, 2020, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>
2021	\$ 49,652
2022	38,586
2023	37,961
2024	25,900
2025	<u>5,150</u>

NOTE N – CAPITAL LEASES – CONTINUED

Total minimum lease payments	157,249
Less amount representing interest	<u>(10,953)</u>
Present value of net minimum lease payments	<u>\$ 146,296</u>

Following is a summary of the property held by the City under the capital lease at June 30, 2020:

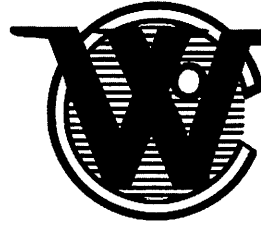
	<u>Governmental Activities</u>
Fire trucks (Kentucky Bond Corporation)	\$ 235,998
Police vehicles (Magnolia Bank)	101,427
Less accumulated depreciation	<u>(178,771)</u>
	<u>\$ 158,654</u>

	<u>Amount Outstanding 6/30/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2020</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 149,381	\$ 42,616	\$ (45,701)	\$ 146,296	\$ 45,061

NOTE P – SUBSEQUENT EVENTS

Management has evaluated and has not recognized any subsequent events through February 9, 2021, 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, 2020, 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 9, 2021, 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) as a basis for designing 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 2020-001 below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

2020-001 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 financial statements. 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 9, 2021

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 389,500	\$ 389,500	\$ 351,736	\$ (37,764)
Motor vehicle tax	24,000	24,000	27,410	3,410
Taxes on insurance premiums	356,000	356,000	408,178	52,178
Occupational licenses	12,500	12,500	13,288	788
Franchise fees	40,700	40,700	50,984	10,284
Telecommunication tax	5,847	5,847	15,327	9,480
ABC fees	112,000	112,000	138,098	26,098
Law enforcement fees	7,000	7,000	6,259	(741)
Municipal road aid	65,000	65,000	46,836	(18,164)
Police incentive	32,242	32,242	28,897	(3,345)
Fire state aid	11,000	11,000	11,000	-
Coal and mineral severance	79,000	99,000	77,971	(21,029)
Other grants	30,750	56,502	7,592	(48,910)
Sanitation fees	393,856	393,856	425,877	32,021
Fire district contract	39,400	39,400	29,400	(10,000)
Arrest fees	1,880	1,880	980	(900)
Interest	128	128	523	395
Rent	5,300	5,300	3,811	(1,489)
Donations	12,200	12,200	9,250	(2,950)
Other receipts	122,821	272,821	142,759	(130,062)
Total Revenues	<u>1,741,124</u>	<u>1,936,876</u>	<u>1,796,176</u>	<u>(140,700)</u>
Expenditures:				
General government:				
Salaries and wages	114,702	114,702	119,834	(5,132)
Payroll taxes	9,025	9,025	8,213	812
Retirement	27,597	27,597	25,749	1,848
Life and health insurance	54,585	54,585	56,288	(1,703)
Insurance	9,700	9,700	7,642	2,058
Advertising and printing	2,500	2,500	3,278	(778)
Professional fees	20,000	20,000	19,257	743
Repairs and maintenance	1,000	1,000	89	911
Utilities and communications	11,300	11,300	10,236	1,064
Other contractual services	16,600	16,600	15,849	751
Community center expenses	4,000	4,000	3,139	861
Materials and supplies	9,750	9,750	6,033	3,717
Other expenses	44,000	149,000	32,285	116,715
Debt service:				
Interest expense	10,820	10,820	10,820	-
Principal retirement	35,115	35,115	35,115	-
Capital outlays	-	32,000	5,911	26,089
Total General Government	<u>370,694</u>	<u>507,694</u>	<u>359,738</u>	<u>147,956</u>

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

40

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Salaries and wages	242,714	242,714	249,137	(6,423)
Payroll taxes	19,067	19,067	18,410	657
Retirement	50,640	50,640	58,300	(7,660)
Life and health insurance	68,194	68,194	72,842	(4,648)
Insurance	19,000	19,000	17,835	1,165
Professional fees	250	250	17	233
Repairs and maintenance	3,000	3,000	5,687	(2,687)
Utilities and communications	6,500	6,500	8,022	(1,522)
Other contractual services	700	700	-	700
Materials and supplies	32,300	32,300	23,957	8,343
Other expenses	30,786	30,786	15,904	14,882
Debt service:				
Interest expense	-	-	1,577	(1,577)
Principal retirement	25,000	25,000	25,701	(701)
Capital outlays	-	-	42,616	(42,616)
Total Police	<u>498,151</u>	<u>498,151</u>	<u>540,005</u>	<u>(41,854)</u>
Fire:				
Salaries and wages	12,043	12,043	8,178	3,865
Payroll taxes	1,001	1,001	654	347
Insurance	20,300	20,300	28,419	(8,119)
Repairs and maintenance	8,000	8,000	19,843	(11,843)
Utilities and communications	13,000	13,000	12,512	488
Other contractual services	750	750	1,195	(445)
Materials and supplies	25,500	25,500	13,364	12,136
Other expenses	22,215	22,215	20,980	1,235
Debt service:				
Interest expense	3,688	3,688	3,875	(187)
Principal retirement	20,000	20,000	20,000	-
Capital outlays	16,000	16,000	109,163	(93,163)
Total Fire	<u>142,497</u>	<u>142,497</u>	<u>238,183</u>	<u>(95,686)</u>
Street:				
Salaries and wages	96,491	96,491	76,914	19,577
Payroll taxes	7,532	7,532	5,691	1,841
Retirement	23,216	23,216	19,651	3,565
Life and health insurance	26,944	26,944	27,309	(365)
Insurance	8,800	8,800	8,600	200

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

41

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Repairs and maintenance	3,000	3,000	3,139	(139)
Utilities and communications	60,000	60,000	60,059	(59)
Other contractual services	2,000	2,000	4,707	(2,707)
Materials and supplies	24,000	44,000	38,024	5,976
Other expenses	8,418	8,418	7,887	531
Debt service:				
Interest expense	531	531	479	52
Principal retirement	4,063	4,063	4,063	-
Capital outlays	105,250	105,250	48,784	56,466
Total Street	<u>370,245</u>	<u>390,245</u>	<u>305,307</u>	<u>84,938</u>
Sanitation:				
Salaries and wages	98,991	98,991	96,267	2,724
Payroll taxes	7,773	7,773	6,638	1,135
Retirement	23,817	23,817	21,613	2,204
Life and health insurance	40,416	40,416	44,462	(4,046)
Insurance	17,000	17,000	18,303	(1,303)
Repairs and maintenance	4,000	4,000	14,593	(10,593)
Utilities and communications	2,500	2,500	2,822	(322)
Other contractual services	82,000	82,000	78,447	3,553
Materials and supplies	38,500	38,500	31,818	6,682
Other expenses	8,500	8,500	1,555	6,945
Debt service:				
Interest expense	4,474	4,474	4,421	53
Principal retirement	35,686	35,686	35,686	-
Capital outlays	13,250	24,000	11,540	12,460
Total Sanitation	<u>376,907</u>	<u>387,657</u>	<u>368,165</u>	<u>19,492</u>
Alcohol Beverage Control:				
Salaries and wages	32,195	32,195	33,321	(1,126)
Payroll taxes	2,563	2,563	2,261	302
Retirement	7,746	7,746	7,780	(34)
Life and health insurance	13,472	13,472	13,879	(407)
Insurance	2,900	2,900	1,841	1,059
Repairs and maintenance	-	-	-	-
Utilities and communications	1,400	1,400	1,340	60
Materials and supplies	3,300	3,300	4,074	(774)
Other expenses	8,651	8,651	9,243	(592)
Total Alcohol Beverage Control	<u>72,227</u>	<u>72,227</u>	<u>73,739</u>	<u>(1,512)</u>
Total Expenditures	<u>1,830,721</u>	<u>1,998,471</u>	<u>1,885,137</u>	<u>114,846</u>
Excess of revenues over (under) expenditures	(89,597)	(61,595)	(88,961)	(255,546)

CITY OF LOUISA, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

42

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other Financing Sources/(Uses):				
Proceeds from borrowing	-	-	42,616	42,616
Proceeds from insurance	-	-	8,397	8,397
Transfers to Swimming Pool	<u>(2,000)</u>	<u>(2,000)</u>	<u>(694)</u>	<u>1,306</u>
Total Other Financing Uses	<u>(2,000)</u>	<u>(2,000)</u>	<u>50,319</u>	<u>52,319</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (91,597)</u>	<u>\$ (63,595)</u>	(38,642)	<u>\$ 24,953</u>
Fund balance - beginning			<u>431,741</u>	
Fund balance - ending			<u>\$ 393,099</u>	

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2020**

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>	<u>6/30/2020</u>
City's proportion of the net pension liability (asset)	0.039751%	0.039134%	0.038146%
City's proportionate share of the net pension liability (asset)	\$ 2,326,749	\$ 2,383,501	\$ 2,682,825
City's covered-employee payroll	\$ 969,990	\$ 969,955	\$ 1,051,384
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	239.87%	245.73%	255.17%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	53.54%	50.45%

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, 2020**

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>	<u>6/30/2020</u>
Contractually required contribution	\$ 140,454	\$ 157,326	\$ 202,917
Contributions in relation to the contractually required contribution	<u>140,454</u>	<u>157,326</u>	<u>202,917</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 969,990	\$ 969,955	\$ 1,051,384
Contributions as a percentage of covered-employee payroll	14.48%	16.22%	19.30%

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, 2020**

45

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

The following changes in assumptions were modified as of the June 30, 2017 valuation:

- the assumed investment rate of return was decreased from 7.50% to 6.25%
- the assumed rate of inflation was reduced from 3.25% to 2.30%
- payroll growth assumption was reduced from 4.00% to 2.00%

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2019

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25% for CERS non-hazardous

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2020**

46

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
City's proportion of the net OPEB liability (asset)	0.039751%	0.039134%	0.038135%
City's proportionate share of the net OPEB liability (asset)	\$ 799,131	\$ 694,816	\$ 641,414
City's covered-employee payroll	\$ 969,990	\$ 969,955	\$ 1,051,384
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	82.39%	71.63%	61.01%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%

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, 2020**

47

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
Contractually required contribution	\$ 45,590	\$ 51,020	\$ 50,046
Contributions in relation to the contractually required contribution	<u>45,590</u>	<u>51,020</u>	<u>50,046</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 969,990	\$ 969,955	\$ 1,051,384
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%

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, 2020**

48

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

The following changes in assumptions were modified as of the June 30, 2017 valuation:

- the assumed investment rate of return was decreased from 7.50% to 6.25%
- the assumed rate of inflation was reduced from 3.25% to 2.30%
- payroll growth assumption was reduced from 4.00% to 2.00%

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2019

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

SUPPLEMENTAL AND OTHER INFORMATION

**CITY OF LOUISA, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

49

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>
Salaries and wages	\$ 367,733	\$ 143,497	\$ 9,499	\$ 520,729
Payroll taxes	26,933	9,643	882	37,458
Employee benefits	242,010	116,467	-	358,477
Insurance	38,846	23,275	-	62,121
Lab tests	8,773	12,815	-	21,588
Legal and professional	19,246	9,094	-	28,340
Materials and supplies	201,885	53,885	3,962	259,732
Miscellaneous	151,083	56,778	1,409	209,270
Office expense	14,509	10,065	892	25,466
Repairs and maintenance	319,293	192,790	1,955	514,038
Telephone	7,835	2,952	180	10,967
Truck expense	46,073	37,861	-	83,934
Utilities	220,980	144,468	1,065	366,513
Depreciation	379,927	205,949	3,008	588,884
TOTAL OPERATING EXPENSES	<u>\$ 2,045,126</u>	<u>\$ 1,019,539</u>	<u>\$ 22,852</u>	<u>\$3,087,517</u>