

CITY OF AUGUSTA, KENTUCKY
FINANCIAL STATEMENTS
JUNE 30, 2023

Draft

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INDEPENDENT AUDITOR'S REPORT

Member of City Council
City of Augusta, Kentucky
Augusta, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of Augusta, Kentucky (City) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund, of the City, as of June 30, 2023 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.

Basis of Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are condition or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

Required Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City basic financial statements. The accompanying combining utility fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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'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's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
February 28, 2024

As management of the City of Augusta, Kentucky (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of the City were more than its liabilities and deferred outflows at the close of the most recent fiscal year by \$4,299,111 (net position). The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was a deficit of \$2,037,763. The City's total net position increased by \$208,270.

At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$617,203 an increase of \$146,4527 from the prior year. Of this amount, \$545,733 is available for spending at the City's discretion (unassigned fund balance).

At the close of the current fiscal year, the unassigned fund balance for the general fund is approximately 32% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, and parks and recreation.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two governmental funds and four proprietary funds.

The City adopts an annual budget for its major funds. A budgetary comparison schedule has been provided for each major fund to demonstrate compliance with the budget.

The fund financial statements can be found on pages 11-17 of this report.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-28 of this report.

OTHER INFORMATION

In addition to the basic financial statements and notes to the financial statements, this report also presents required supplementary information concerning the City's budgets. Required supplementary information can be found on pages 30-31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Net Position

	June 30, 2023	June 30, 2022	Change
Current assets	\$ 3,425,432	\$ 3,513,289	\$ (87,857)
Non-current assets	3,301,530	3,325,044	(23,514)
Total assets	6,726,962	6,838,333	(111,371)
Current liabilities	1,294,267	1,343,752	(49,485)
Non-current liabilities	1,133,584	1,145,876	(12,292)
Total liabilities	2,427,851	2,489,628	(61,777)
Net investment in capital assets	2,189,878	3,251,966	(1,062,088)
Restricted	71,470	149,861	(78,391)
Unrestricted	2,037,763	946,852	1,090,911
Total net position	\$ 4,299,111	\$ 4,348,679	\$ (49,568)

Governmental Funds Revenue and Expenditures

	June 30, 2023	June 30, 2022	Change
Revenues			
Taxes	\$ 308,983	\$ 524,727	\$ (215,744)
Licenses	840,470	509,213	331,257
Intergovernmental	333,305	44,937	288,368
Charges for services	495,743	353,649	142,094
Other revenue	60,436	248,390	(187,954)
Total revenues	\$ 2,038,937	\$ 1,680,916	\$ 358,021
Expenditures			
General government	\$ 607,857	\$ 362,495	\$ 245,362
Police	284,700	268,309	16,391
Fire	30,651	34,033	(3,382)
Sanitation	415,505	134,315	281,190
Public works	319,851	328,172	(8,321)
Tourism	85,949	59,851	26,098
Recreation	111,294	115,319	(4,025)
Capital outlay	11,290	4,957	6,333
Debt service	25,383	22,936	2,447
Total expenditures	\$ 1,892,480	\$ 1,330,387	\$ 562,093

Proprietary Funds Revenue and Expenses

	June 30, 2023	June 30, 2022	Change
Revenues			
Sales	\$ 1,311,851	\$ 1,265,193	\$ 46,658
Total revenues	\$ 1,311,851	\$ 1,265,193	\$ 46,658
Expenditures			
Salaries and wages	\$ 398,432	\$ 318,610	\$ 79,822
Gas purchases	229,563	271,945	(42,382)
Chemicals and testing	64,714	65,047	(333)
Utilities and telephone	223,008	202,595	20,413
Professional fees	30,708	30,388	320
Insurance	19,278	81,760	(62,482)
Repairs	131,916	110,001	21,915
Transportation	17,127	20,340	(3,213)
Office	78,545	67,590	10,955
Depreciation	162,701	166,778	(4,077)
Total expenditures	\$ 1,355,992	\$ 1,335,054	\$ 20,938

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the City had \$3,301,530 net investment in capital assets.

Long-Term Obligations

At the end of the fiscal year, the City had \$1,111,652 in long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City does not anticipate any significant events or transactions that will impact the upcoming fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk at 219 Main Street, Augusta, KY 41002.

City of Augusta, Kentucky
Statement of Net Position
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 734,476	\$ 1,290,504	\$ 2,024,980
Investments	12,292	-	12,292
Receivables	31,236	109,684	140,920
Restricted cash	71,470	-	71,470
Due from other funds	23,000	1,152,770	1,175,770
Capital assets, net	1,551,272	1,750,258	3,301,530
Total assets	2,423,746	4,303,216	6,726,962
Liabilities			
Accounts payable	29,993	5,886	35,879
Payroll liabilities	8,561	-	8,561
Unearned revenue	41,039	-	41,039
Customer deposits	-	32,690	32,690
Accrued interest payable	-	328	328
Due to other funds	175,678	1,000,092	1,175,770
Due within one year:			
Notes payable	22,083	66,252	88,335
Due in more than one year:			
Compensated absences	10,430	11,502	21,932
Notes payable	114,584	908,733	1,023,317
Total liabilities	402,368	2,025,483	2,427,851
Net position			
Net investment in capital assets	1,414,605	775,273	2,189,878
Restricted	71,470	-	71,470
Unrestricted	535,303	1,502,460	2,037,763
Total net position (deficit)	\$ 2,021,378	\$ 2,277,733	\$ 4,299,111

See accompanying notes to financial statements.

City of Augusta, Kentucky
Statement of Activities
Year Ended June 30, 2023

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense)
Governmental Activities					
General government	\$ 465,411	\$ -	\$ 233,220	\$ -	\$ (232,191)
Police	297,920	-	57,818	-	(240,102)
Fire	30,651	-	-	-	(30,651)
Public works	215,912	-	42,267	-	(173,645)
Sanitation	415,505	455,966	-	-	40,461
Recreation	111,299	39,777	-	-	(71,522)
Tourism	85,949	-	-	-	(85,949)
Depreciation unallocated	127,270	-	-	-	(127,270)
Interest on long-term debt	5,383	-	-	-	(5,383)
Total governmental activities	1,755,300	495,743	333,305	-	(926,252)
Business-Type Activities					
Utilities	1,388,705	1,311,851	-	-	(76,854)
Total business-type activities	\$ 1,388,705	\$ 1,311,851	\$ -	\$ -	\$ (76,854)
			Government Activities	Business-Type Activities	Total
Net Revenue (Expense)			\$ (926,252)	\$ (76,854)	\$ (1,003,106)
General Revenues					
Tax revenue			772,801	-	772,801
License revenue			376,652	-	376,652
Other revenue			60,430	-	60,430
Interest income			6	1,487	1,493
Total general revenues			1,209,889	1,487	1,211,376
Change in net position			283,637	(75,367)	208,270
Net position - beginning of year			1,737,741	2,353,100	4,090,841
Net position - end of year			2,021,378	2,277,733	\$ 4,299,111

See accompanying notes to financial statements.

City of Augusta, Kentucky
Balance Sheet – Governmental Funds
June 30, 2023

	General Fund	Recreation Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (deficit)	\$ 734,476	\$ -	\$ 734,476
Restricted cash	71,470	-	71,470
Investments	12,292	-	12,292
Accounts receivable	31,236	-	31,236
Due from other funds	-	23,000	23,000
Total assets	\$ 849,474	\$ 23,000	\$ 872,474
Liabilities			
Accounts payable	29,993	-	\$ 29,993
Payroll liabilities	8,561	-	8,561
Unearned revenue	41,039	-	41,039
Due to other funds	175,678	-	175,678
Total liabilities	255,271	-	255,271
Fund balances			
Restricted	71,470	0	71,470
Unassigned	522,733	23,000	545,733
Total fund balances	594,203	23,000	617,203
Total liabilities and fund balances	\$ 849,474	\$ 23,000	\$ 872,474

See accompanying notes to financial statements.

City of Augusta, Kentucky
 Reconciliation of the Balance Sheet – Governmental Funds
 to the Statement of Net Position
 June 30, 2023

Total fund balances - governmental funds	\$ 617,203
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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.	1,551,272
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Notes payable	(136,667)
Compensated absences	(10,430)

Net position of governmental activities	\$ 2,021,378
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See accompanying notes to financial statements.

Draft

City of Augusta, Kentucky
Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds
June 30, 2023

	General Fund	Recreation Fund	Total Governmental Funds
Revenues			
Taxes	\$ 308,983	\$ -	308,983
Licenses and permits	840,470	-	840,470
Intergovernmental	333,305	-	333,305
Charges for services	495,743	-	495,743
Other revenue	60,425	5	60,430
Investment income	6	-	6
Total revenues	2,038,932	5	2,038,937
Expenditures			
General government	607,857	-	607,857
Police	284,700	-	284,700
Fire	30,651	-	30,651
Sanitation	415,505	-	415,505
Public works	319,851	-	319,851
Tourism	85,949	-	85,949
Recreation	111,294	5	111,299
Capital outlay	11,290	-	11,290
Debt service	25,383	-	25,383
Total expenditures	1,892,480	5	1,892,485
Net change in fund balances	146,452	-	146,452
Fund balances - beginning	447,751	23,000	470,751
Fund balances - end of year	\$ 594,203	\$ 23,000	\$ 617,203

See accompanying notes to financial statements.

City of Augusta, Kentucky
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances – Governmental Funds to the Statement of Activities
 June 30, 2023

Net change in fund balances - total governmental funds	\$ 146,452
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those asset is allocated over their estimated useful lives and reported as depreciation expense.</p>	127,615
<p>Repayment of long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	20,000
<p>Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in the funds.</p>	
Change in compensated absences	(10,430)
Change in OPEB liabilities and deferred amounts	
Change in pension liabilities and deferred amounts	
Change in net position of governmental activities	\$ 283,637

See accompanying notes to financial statements.

City of Augusta, Kentucky
Statement of Net Position – Proprietary Funds
June 30, 2023

	Water Fund	Water Treatment Fund	Gas Fund	Sewer Fund	Total
Assets					
Cash and cash equivalents	\$ 45,090	\$ 266,165	\$ 274,772	\$ 704,477	\$ 1,290,504
Receivables	20,481	36,743	29,958	22,502	109,684
Due from other funds	-	7,223	1,145,547	-	1,152,770
Capital assets, net	68,299	1,309,226	90,124	282,609	1,750,258
Total assets	133,870	1,619,357	1,540,401	1,009,588	4,303,216
Liabilities					
Accounts payable	412	1,292	1,728	2,454	5,886
Customer deposits	14,590	-	18,100	-	32,690
Accrued interest payable	-	328	-	-	328
Due to other funds	515,735	-	-	484,357	1,000,092
Due within one year:					
Notes payable	9,052	57,200	-	-	66,252
Due in more than one year:					
Compensated absences	1,521	6,433	2,534	1,014	11,502
Notes payable	41,333	867,400	-	-	908,733
Total liabilities	582,643	932,653	22,362	487,825	2,025,483
Net position					
Net investment in capital assets	17,914	384,626	90,124	282,609	775,273
Unrestricted	(466,687)	302,078	1,427,915	239,154	1,502,460
Total net position	\$ (448,773)	\$ 686,704	\$ 1,518,039	\$ 521,763	\$ 2,277,733

See accompanying notes to financial statements.

City of Augusta, Kentucky
Statement of Revenue, Expenses, and Change
in Net Fund Position – Proprietary Funds
Year Ended June 30, 2023

	Water Fund	Treatment Fund	Gas Fund	Sewer Fund	Total
Revenues					
Sales	\$ 225,255	\$ 370,624	\$ 492,285	\$ 223,687	\$ 1,311,851
Expenditures					
Salaries and wages	65,519	224,775	63,702	44,436	398,432
Gas purchases	-	-	229,563	-	229,563
Chemicals and testing	-	36,225	-	28,489	64,714
Utilities and telephone	26,363	93,388	23,856	79,401	223,008
Professional fees	7,467	3,841	14,013	5,387	30,708
Insurance	2,411	11,040	1,560	4,267	19,278
Repairs	23,574	53,270	35,305	19,767	131,916
Transportation	6,380	-	10,747	-	17,127
Office	5,454	1,578	6,383	2,181	15,596
Other expenses	13,010	4,373	43,622	1,944	62,949
Depreciation	15,703	104,882	14,582	27,534	162,701
Total expenditures	165,881	533,372	443,333	213,406	1,355,992
Operating loss	59,374	(162,748)	48,952	10,281	(44,141)
Other financing sources (uses)					
Interest income	-	1,409	-	78	1,487
Interest expense	(954)	(31,759)	-	-	(32,713)
Total other financing sources (uses)	(954)	(30,350)	-	78	(31,226)
Net change in fund balances	58,420	(193,098)	48,952	10,359	(75,367)
Fund balances - beginning	(380,533)	753,142	1,469,087	511,404	2,353,100
Fund balances - end of year	\$ (322,113)	\$ 560,044	\$ 1,518,039	\$ 521,763	\$ 2,277,733

See accompanying notes to financial statements.

City of Augusta, Kentucky
Statement of Cash Flows – Proprietary Funds
June 30, 2023

	Utility Fund
Cash flows from operating activities	
Cash received:	
From utility sales	\$ 1,291,691
Cash paid:	
To employees	(386,930)
To suppliers	(258,841)
For operating expenses	(452,642)
Net cash provided by operating activities	193,278
Cash flows from capital financing activities	
Repayment of principal	(98,837)
Net cash used by investing activities	(98,837)
Cash flows from investing activities	
Purchases of equipment	(11,582)
Interest on investments	1,487
Net cash used by investing activities	(10,095)
Net change in cash	84,346
Cash - beginning of year	1,206,158
Cash - end of year	<u>\$ 1,290,504</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating income	\$ (44,141)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	162,701
Changes in:	
Accounts receivable	(23,800)
Accounts payable	(29,278)
Due from/to other funds	105,936
Customer deposits	3,640
Other liabilities	18,220
Net cash provided by operating activities	<u>\$ 193,278</u>

See accompanying notes to financial statements.

NOTE 1: ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Augusta, Kentucky (City) designate the purpose, function, and restrictions of the various funds.

Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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 statement of net position presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues 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 governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. This is a major fund of the city.

Recreation Fund – The recreation fund is a special revenue fund that accounts recreation activities. The city has elected to treat this as a major fund.

Proprietary Fund Types

Water Fund – The water fund accounts for water services provided to customers of the City. The operations are funded by user charges. This is a major fund of the city.

Water Treatment Plant Fund – The water treatment plant fund accounts for water treatment operations and the sale of water to the Bracken County Water District. This is a major fund of the city.

Gas Fund – The gas fund accounts for gas services provided to customers of the City. The operations are funded by user charges. This is a major fund of the city.

Sewer Fund - The sewer fund accounts for gas services provided to customers of the City. The operations are funded by user charges. This is a major fund of the city.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within sixty days of year end. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures as well as expenditures related to long-term compensated absences and postemployment benefits are recorded only when payment is due.

Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

The City is authorized by state statute to invest in the following subject to additional requirements of KRS 66.480:

- Obligations of the United States and of its Agencies and instrumentalities
- Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Bonds and Securities of other State and Local Governments
- Mutual Funds, Exchange Traded Funds, Individual Equity Securities and High-quality Corporate bonds managed by a professional investment manager

Investments

Investments with a maturity of less than one year are stated at cost. Investments with a maturity greater than one year are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Receivables

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1. If paid by October 31, a two-percent (2%) discount is applied. The face amount is due December 31. A 5% penalty is applied January 1.

Accounts receivables are presented, when necessary, net of an allowance for doubtful accounts. No allowance has been recorded for the current fiscal year.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Capital Assets

General capital and leased assets are those assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-50 years
Improvements	20 years
Utility system	40 years
Vehicles	5-10 years
Equipment	7 years
Other	10 years

Payables and Accrued Liabilities

All payables and accrued liabilities are reported on the government-wide financial statements and fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences, contractually required pension and OPEB contributions that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and other long-term obligations are recognized as a liability on the governmental fund financial statements when due.

Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation. Vested or accumulated vacation leave that has matured and is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Accumulated sick leave lapses when employees leave employment of the City and, upon separation from service, no monetary obligation exists.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. Long-term debt consists of bonds, notes, and lease liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as an other financing source and payment of principal and interest are reported as expenditures.

Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period and, are therefore, deferred until that time. The City recognized deferred inflows of resources related to pension and other postemployment benefits on the government-wide financial statements. In the governmental funds, certain revenue transactions have been reported as unavailable revenue. Revenue that is earned but not available is reported as a deferred inflow of resources until such time as the revenue becomes available.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

Restricted net position consists of restricted net assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use by external parties or by law through enabling legislation.

Unrestricted net position is the amount of net amount of assets, deferred outflows, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable. Amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted. Amounts that can be spent only for specific purposes because of constitutional provisions, enabling legislation, state or federal laws, or externally imposed conditions by grantors or creditors.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Committed. Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance.

Assigned. Amounts that are designated for a specific purpose but are not spendable until a budget ordinance is passed or a there is majority passed vote by City Council.

Unassigned. All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance, and then to committed, assigned, and unassigned fund balances in that order.

Revenues and Expenditures/Expenses

Revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided or fines imposed by a given function or segment, and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 the 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.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

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 statement of net position, except for the net residual amounts due between governmental and business-type activities, where are presented as internal balances.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

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 the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Budgetary Process

An annual budget is adopted for each governmental fund by ordinance prior to July 1. The budget can be amended by a subsequent ordinance. Expenditures may not legally exceed budgeted appropriations at the function level.

Subsequent Events

The City evaluated subsequent events for potential recognition and disclosure through February 28, 2024, the date the financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS

Deposits

Custodial credit risk. This is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. At year end, the City's carrying amount was \$2,024,980. The bank balance is covered by FDIC insurance and collateralized securities held by the financial institution, but not in the name of the City. However, the collateralized amount is not enough to cover the carrying amount.

Investments

Custodial credit risk. This is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City maintains an investment account with a brokerage institution which holds investment's in the City's name.

Interest rate risk. This is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rate risk.

Credit risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. At year end, the City held US Treasury notes and certificates of deposit at insured banks.

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Investments - Continued

At year end, the City had the following investments:

	Fair Value	Investment Maturities		Fair Value Measurement	
		Less Than 1 Year	1 - 5 Years	Level 1 Inputs	Level 2 - 3 Inputs
Certificates of deposit	\$ 12,295	\$ 12,295	\$ -	\$ 12,295	
Total	\$ 12,295	\$ 12,295	\$ -	\$ 12,295	\$ -

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year is summarized below:

Government Activities	7/1/2022	Additions	Deletions	6/30/2023
Capital assets				
Land	\$ 22,000	\$ 50,000	\$ -	\$ 72,000
Park, pool, and shelter	533,005	-	-	533,005
Buildings and improvements	1,052,824	-	-	1,052,824
Streets	674,351	126,166	-	800,517
Lighting and dock	847,636	18,189	-	865,825
Vehicles	239,933	8,500	-	248,433
Other equipment	277,963	52,030	-	329,993
Total capital assets	3,647,712	254,885	-	3,902,597
Total accumulated depreciation	2,224,055	127,270	-	2,351,325
Capital assets - net	\$ 1,423,657	\$ 127,615	\$ -	\$ 1,551,272

Depreciation was not charged to any government functions and is reported as unallocated in the statement of activities.

NOTE 3: CAPITAL ASSETS - CONTINUED

Business-Type Activities	Balance 7/1/2022	Additions	Deletions	Balance 6/30/2023
Capital assets				
Land	\$ 9,714	\$ -	\$ -	\$ 9,714
Water utility	4,344,363	11,582	-	4,355,945
Gas utility	884,056	-	(15,000)	869,056
Sewer utility	1,257,590	-	-	1,257,590
Total capital assets	6,495,723	11,582	(15,000)	6,492,305
Accumulated depreciation				
Water utility	2,857,836	120,585	-	2,978,421
Gas utility	779,985	14,582	(15,000)	779,567
Sewer utility	956,525	27,534	-	984,059
Total accumulated depreciation	4,594,346	162,701	(15,000)	4,742,047
Capital assets - net	\$ 1,901,377	\$ (151,119)	\$ -	\$ 1,750,258

NOTE 4: LONG-TERM LIABILITIES

Long-term liability activity for the year is summarized below:

Governmental					Amount	Long-
Issue	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year	Term Amount
Series 2019A	\$ 156,667	\$ 0	\$ 20,000	\$ 136,667	\$ 22,083	\$ 114,584
Total governmental	\$ 156,667	\$ 0	\$ 20,000	\$ 136,667	\$ 22,083	\$ 114,584
Business-Type					Amount	Amount
Issue	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year	Due Within One Year
Series 2016C	\$ 905,000	\$ -	\$ 55,000	\$ 850,000	\$ 55,000	\$ 795,000
Series 2004	76,700	-	2,100	74,600	2,200	72,400
BTADD	59,311	-	8,926	50,385	9,052	41,333
Total business-type	\$ 1,041,011	\$ -	\$ 66,026	\$ 974,985	\$ 66,252	\$ 908,733

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

Obligations outstanding at year end are as follows:

Governmental			Balance
Issue	Proceeds	Rates	June 30, 2023
Series 2019A	\$ 200,000	2.400% - 3.500%	\$ 136,667
Total governmental			\$ 136,667

Business-Type			Balance
Issue	Proceeds	Rates	June 30, 2023
Series 2016C	\$ 1,150,000	3.200%	\$ 850,000
Series 2004	\$ -	4.500%	74,600
BTADD 2019	\$ -	2.000%	50,385
Total business-type			\$ 974,985

Debt service requirements for the City are as follows:

Governmental			
June 30	Principal	Interest	Total
2024	\$ 22,083	\$ 4,833	\$ 26,916
2025	25,000	4,174	29,174
2026	25,000	3,361	28,361
2027	25,000	2,549	27,549
2028	25,000	1,731	26,731
2029	14,584	630	15,214
Total	\$ 136,667	\$ 17,278	\$ 153,945

Business-Type			
June 30	Principal	Interest	Total
2024	\$ 66,252	\$ 30,886	\$ 97,138
2025	66,535	28,843	95,378
2026	71,821	26,713	98,534
2027	72,111	24,495	96,606
2028	75,666	22,283	97,949
2029-2033	350,000	77,490	427,490
2034-2038	243,800	20,319	264,119
2039-2043	23,600	4,454	28,054
2044	5,200	234	5,434
Total	\$ 974,985	\$ 235,717	\$ 1,210,702

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

Compensated absences

City employees earn vacation time based on length of service. Employees cannot opt for cash in lieu of time off. Employees also earn sick days based on length of service. Sick days are not paid out at retirement or termination and, therefore, are not accrued. Accrued compensated absences for vacation time at year end are \$21,932.

NOTE 5: OPERATING LEASES

The City has no operating leases requiring disclosure as right of use assets.

NOTE 6: CONTINGENCIES

Grants. The City receives funding from federal and state agencies in the form of grants. These funds are to be used for designated purposes only. If the federal or state grantor finds that funds have not been used for the intended purposes, the grantor may request a refund of monies advanced or refuse to reimburse the City for its expenditures. The amount of such future refunds and unreimbursed expenditures, if any, is not expected to be significant. Continuation of the City's grant programs is contingent upon the grantors satisfaction that the funds provided are being spent as intended and the grantors intent to continue their programs.

Litigation. The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor possible to estimate the effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management and its legal counsel these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of any cases has been made in the accompanying financial statements.

NOTE 7: RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred, and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2023, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Draft

City of Augusta, Kentucky
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
Revenues				
Taxes	\$ 289,600	\$ 289,600	\$ 308,983	\$ 19,383
Licenses and permits	704,480	704,480	840,470	135,990
Intergovernmental	120,049	120,049	333,305	213,256
Charges for services	364,000	364,000	495,743	131,743
Other revenue	503,014	503,014	60,425	(442,589)
Investment income	-	-	6	6
Total revenues	1,981,143	1,981,143	2,038,932	57,789
Expenditures				
General government and tourism	869,994	869,994	705,096	164,898
Police	392,808	392,808	284,700	108,108
Fire	35,100	35,100	30,651	4,449
Public works and sanitation	532,650	532,650	760,739	(228,089)
Parks and recreation	150,591	150,591	111,294	39,297
Total expenditures	1,981,143	1,981,143	1,892,480	88,663
Net change in fund balances	-	-	146,452	(30,874)
Fund balances - beginning of year	7,362,522	736,252	447,751	(288,501)
Fund balances - end of year	\$ 7,362,522	\$ 736,252	\$ 594,203	\$ (319,375)

NOTE 1: BUDGETS AND BUDGETARY PROCESS

The City follows the procedures established pursuant to KRS 91A.030 in establishing the budgetary data included in the required supplementary information. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

Expenditures exceeded budgeted amounts in the public works and sanitation function.

Draft



Honorable Mayor
and Members of City Council
City of Augusta, 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 and each major fund of the City of Augusta, Kentucky (City) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated February 28, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's District'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City in a separate letter dated February 28, 2024.

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

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

February 28, 2024

2023-01 Bank Collateral. Bank collateral is not sufficient to cover the City's deposits. We recommend that the City work with the bank to obtain adequate collateral coverage. See Note 2 to the financial statements.

2023-02 Insurance Tax Receipts. Insurance tax receipts are inherently difficult to safeguard because cities have no way of knowing who is going to pay, when to expect payment, and how much they are going to pay. We recommend using a bank lockbox to receive insurance tax receipts. The bank will automatically deposit the receipts and provide the City with a report of activity.

2023-03 Bank Reconciliations. There are several dated outstanding items on the bank reconciliation. We recommend utilizing the accounting software to prepare the bank reconciliations and to research and clean up the outstanding reconciling items.

2023-04 Software Logins. Software logins are shared among staff. We recommend providing each employee with their login so that an audit trail is established in the accounting software.

City Response. City management has reviewed these recommendations and will consider implementation where practical.