

CITY OF AUDUBON PARK, KENTUCKY

JUNE 30, 2013

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	3 - 4
Management Discussion and Analysis (unaudited)	5 - 14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Notes to Basic Financial Statements	21 - 26
Required Supplemental Information:	
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	27 - 28
Schedule of Findings and Responses	29
Other Supplemental Information (unaudited)	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	30
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Fund	31

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

2455 CRITTENDEN DRIVE
LOUISVILLE, KY 40217-1813

TELEPHONE: (502) 634-8351

FAX: (502) 634-5594

CPA ASSOCIATES
ROBIN F. OWENS, CPA
CAROL L. PIERCE, CPA
ROBERT M. BARGER, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Audubon Park, Kentucky

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Audubon Park, Kentucky (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the accompanying 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 an opinion 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 opinion.

Opinion

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

Other Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 5-14 and 30-31 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 basic financial statements in 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2014, on our consideration of the City of Audubon Park, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 City of Audubon Park, Kentucky's internal control over financial reporting and compliance.

HENSON & ASSOCIATES
Certified Public Accountants

Louisville, Kentucky

March 17, 2014

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Mayor's Management Overview

The key distinguishing feature of this report is the wholesale shift in composition and direction of City government during the reporting period. Five of the six City Council members were newly elected midway through the fiscal year, and began insisting on a new course. A viable budget, departing fundamentally from the flawed and unsustainable one evaluated in this report, was only adopted some three months after the nominal start of the new fiscal year. The sixth Council member, who had played a prominent role in the formulation and execution of previous budgets, was dismissed in the process after findings of negligence and misconduct. The mayor resigned a short time thereafter. A new City administration is now being marshaled, with its priorities informed directly by the findings of this report and its antecedents.

One of the key events in this reform effort was an appeal to engage the Auditor of Public Accounts (APA) in a review of some of the most troubling budgetary and administrative practices the new Council encountered. Much of the attendant documentation and rationale was compiled in an unprecedented outpouring of commitment and energy by concerned ordinary citizens. Agents of the Auditor did conduct a preliminary inquiry, and issued findings and recommendations. The report's somewhat surprising focus on the unscripted internal dynamics of City governance, however, rather than a State-Level perspective based on the statutory framework within which the City is supposed to operate, left its recommendations unremarkable, and the City's concerns about critical legal issues unaddressed.

The APA's first finding addressed the City's waste management program, which as the present report shows, was commingled with the City's General Fund, and funded by a 'sanitation fee' assessed in parallel with ordinary taxes on residents, but at a rate nearly double the contract cost for waste removal. Aside from a modest figure for storm damage cleanup, arguably attributable to a broadly defined waste management program, the rest was expended simply on other general City expenses exceeding normal tax revenue. This practice had apparently gone on for several years in varying degrees.

The City Council has established a separate restricted fund for future deposits and expenditures associated with this program, and will receive monthly updates of its status, refined as needed to insure clarity and effective control. Since the Auditor's report didn't address any of the applicable laws and regulations, it's fallen to the new City attorney to conduct the necessary research and documentation. This will extend and formalize the basic findings compiled by concerned citizens earlier this year, and affirmed by the county attorney's office, regarding the basic parameters and limitations of this program.

CITY OF AUDUTON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

This logic proceeds from KRS Chapter 109, which establishes powers and responsibilities of counties and districts for waste management programs. Section 109.041(7) further provides that "a county may...delegate the responsibility for solid waste management within incorporated areas to a city when the city agrees to assume such responsibility." Presumably this is the source of Audubon Park's own authority, with Chapter 51 of the Metro Code of Ordinances doing the delegating, and the current Metro Louisville Waste Management Plan doing the implementing.

KRS 109.056, in turn, sets responsibilities for collecting and expending taxes and/or fees for waste management. The clear standard set there is that these revenues be limited to the costs of the program, and be expended solely for those purposes. This is simply a logical parallel to the body of law prescribing proper expenditure of tax revenues for other designated purposes. One would assume that this is among the key responsibilities a delegation from county to city would include - thus, Audubon Park's budget should meet the same standards.

Once this logic is formalized, and finalized, the results will be codified by ordinance, or municipal or executive order, as required, to insure the resulting institutional knowledge is applied and retained.

The APA's second finding deals with management of City finances in general, and road funds in particular. Like the waste management program, road aid will be managed as a separate restricted fund, and its status reported monthly for scrutiny by the mayor and Council. Since applicable laws and regulations were not examined in the APA report, it will again fall to the newly appointed City attorney to conduct the necessary original research to insure the program's compliance with pertinent policy and procedure.

While the APA's recommendations associated with this finding appeared to condone "inter-fund borrowing" of the sort observed to occur between General and Road funds, City officials have examined KRS 177.365, where it seems clear that such borrowing would be unlawful. Restricted funds will be managed strictly according to their ordained status: restricted.

The City's utility billing practices were identified as needing refinement. This provider will be visited early and often to iron out deficiencies in billing and accounting practices. This dialogue will involve not just proper delineation of leasing and usage charges, but discontinuities in other general billing practices apparently undiscovered by the auditors. The most pressing example is the assessment of usage charges for street lamps along Preston Highway that appear more than double those assessed for other fixtures in the City.

The City's contract accountant is responding to mayoral and Council guidance to produce clearer and more comprehensible financial reporting for effective oversight. This is, nonetheless, a somewhat awkward arrangement of outsourcing a critical City management function, normally accomplished by an appointed official, in the interest of infusing more professional expertise. The propriety and affordability of this practice are subjects of ongoing review, even as we assimilate the improved tools produced.

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

The mayor and Council are an aggressive 'committee of the whole' for the working purposes of refining administrative policies and procedures along the lines suggested in the APA report. The present annual audit is well understood to be a vehicle of intense micromanagement for this purpose. The auditing firm used by the City for many years, and targeted earlier for rotation, has been retained for one more iteration to take advantage of its institutional knowledge, in the wake of widespread turnover in city government. The findings of this report have been developed interactively in the audit process, and the results will be scrutinized with special care to inform the policy process.

Deficiencies in physical security of City records and other property and resources were noted as a possible source of irregularities in employee handbooks and other policy documents. This is a matter of special concern to the new administration. Ciphers for building access and security codes have already been changed, and manual keyed and combination locking devices will be replaced as quickly as resources permit. Information technology is being upgraded as well, to provide for secure electronic storage, both on- and off-site, for essential City records. Web and other media resources are being exploited to post more and more official material publicly, where any unexpected alterations are far more likely to draw immediate attention.

As noted above, a principal challenge in refining the City's employee handbook, along with its other policies and procedures, will be the compilation of necessary statutory and regulatory provisions not covered in the APA report. The key constraints on the newly appointed City attorney's efforts are the budgetary resources available to defray the associated costs.

Likewise with a renewed codification of the City's code of ordinances, last conducted in 1996, for which a modest budget line was introduced in the current budget, and potential supporting grants are being explored. Upgraded communication of the results will be an essential consequence of the broader transparency initiatives discussed above.

The third APA finding deals with the City's pension program. This has been perhaps the most vexing area to resolve, not only because of the uneven City policies and practices noted, but of a Gordian maze of statutory provisions that has proven too difficult for laymen to negotiate - and was, again, unassisted by the APA report. It will once more fall to our newly minted City attorney to strive to untie this knot, and help devise a way forward that's both fiscally responsible and legally and administratively defensible. We begin from ground level, with KRS 65.156, which appears on its face to render the entire extant program unlawful from its inception, with implications that may extend even to recoupment at some level. The minute details of revisiting inconsistent baselines, award amounts, and duration of payments discussed in the APA report lie at the other end other the spectrum of further investigation and resolution of this matter.

Beyond the specific cases of deficient fund integrity, overcharging of fees, and opaque accounting and reporting practices, other fundamental City fiscal dynamics were not examined in the APA report, but must certainly be addressed here.

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

It's become apparent in the course of compiling this report that the routine executive practices most urgently needing attention include:

- . fiscal discipline - simply more careful and resolute husbanding of City resources, and better financial reporting, scrutiny and budget accountability.
- . resistance to line-of-credit borrowing, or juggling of budget lines, that would support additional spending.
- . full and ongoing accountability for City property and capital assets
- . disposition of excess supplies and equipment.
- . imposition of strict and secure management of City records and policy documents.
- . refinement of creative ways and means to meet future needs for equipment and program support, through such avenues as intergovernmental transfers, grants, and public-private partnerships, relieving reliance on taxes and fees.
- . mobilizing citizen energy and talents to provide momentum for civic initiatives without requiring public development funding.

Tactical shifts like these will help facilitate broader strategic changes. Beyond curbing excess sanitation fees, and 'fencing' restricted funds, though, the overarching fiscal practice needing retooling appears to be a basic tax-and-budget schedule profoundly misaligned in current practice. Tax rates are set early in the calendar year, and bills dispatched; then the budget to establish needed revenues is formulated; then taxes are collected, and spending begins; then the fiscal year turns over to inaugurate the new budget - after some portion of its revenues are already expended.

The root cause of the various reversals of logic seen here seems to be a basic need to cover excess spending in the current year with next year's revenue - despite the excess resources amassed by the other means already discussed. As a consequence, the tax schedule has been advanced to a point far too early to be based on needs yet to be delineated in the budget - or even, as PVA executives have observed, to take account of current property valuations. The prevailing habit has thus been simply to adjust tax rates so as to produce the additional total revenue permitted by law without the prospect of recall, knowing much of the money will already be spent before the new budget is executed. It's a perpetual cycle of undervaluation, overspending, and borrowing from the future that must be reversed. But the hole has gotten deep enough that it may take some time to climb out.

In summary, the core initiatives the new government is undertaking to overcome the deficiencies reflected in this report include:

- . promulgating a waste management program that eliminates overcharges of sanitation fees; refunds last year's overcharges, set aside by budget reductions; yields a rational and reasonable way to assess future fees that includes both fixed contract costs and intangibles like storm damage cleanup; and manages contract services best aligned to the community's needs.
- . imposing and maintaining strict controls on the various components of City budgeting, including the integrity of general and restricted funds, and the use of their resources for the intended purposes.

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

- . continuing review of long-term commitments and obligations, especially sanitation and pension programs, for conformance with budgetary, contractual and statutory restrictions for the fiscal health of the City.
- . undertaking with vigor the various management and administrative practices of fiscal responsibility listed above.
- . retooling the tax-and-budget cycle to resume a normal sequence of budgeting the need for resources; obtaining current valuations of property and services to support accurate assessments; billing and collecting the taxes necessary to meet minimum needs; and executing the budget accordingly.

Beyond these essential mechanical steps lies the larger challenge of restoring community faith and confidence, by not just attaining eventual fiscal health, but providing transparency in governance, urging added participation, enhancing communication, protecting community values and integrity, and producing long-deferred concrete results in key areas like reforestation, road refurbishment, and community-friendly facilities, services and activities. There can be no rest until these things are done.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the City of Audubon Park, Kentucky's basic financial statements. It should be read in conjunction with the accompanying independent auditor's report and notes to the financial statements.

Financial Highlights (Table 1, Page 11)

- The liabilities of the City of Audubon Park, Kentucky exceeded its assets at the close of the fiscal year ending June 30, 2013 by \$668.2 thousand (net position). Its net position was in a deficit position which negatively impacts its ability to meet the government's ongoing obligations to citizens and creditors.
- The City of Audubon Park, Kentucky's total net position increased by \$93.1 thousand for the year ended June 30, 2013. The increase in net position can be attributed to increased insurance tax revenues and insurance reimbursements for hail damage to City property.
- As of June 30, 2013 the City of Audubon Park, Kentucky's governmental funds reported combined ending fund balances of a negative (\$261.3) thousand, a decrease in the deficit of \$55.0 thousand in comparison with the prior fiscal year.
- The City's total debt, net of repayments, decreased by \$44.3 thousand during the current fiscal year.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Audubon Park, Kentucky's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City of Audubon Park, Kentucky's assets and liabilities, with the difference between the two 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 of Audubon Park, Kentucky is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other factors, such as changes in the City's property tax base, should also be taken into consideration to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Position and the Statement of Activities, the City has one major type of activity:

- Governmental Activities - All of the City's basic services are reported here, including the police, public works, parks, and general administration. Property taxes, insurance taxes, sanitation and other fees and inter-governmental revenues finance most of these activities.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law. The City has one overall fund - governmental.

- Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements readers may better understand the long-term effect of the government's near-term financing decisions. The reconciliations on pages 19 and 20 will help the reader understand those differences.

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30 2013

The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

As of June 30, 2013, The City of Audubon Park, Kentucky maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Special Revenue Fund, both of which are considered to be major funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

The City as a Whole - Government-wide Financial Analysis

The City's net position was a negative (\$668.2) thousand as of June 30, 2013 compared to a negative \$(761.3) thousand as of June 30, 2012. This analysis focuses on the net position (table 1) and changes in general tax revenues (table 2) and significant expenses of the City's governmental activities.

By far the largest portion of the City's net position (\$156.3 thousand) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported less any related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Summary of Net Position
Governmental Activities
(Amounts Expressed in Thousands)

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Change</u>
	(See Page 15)		
Current and other assets	462.3	359.3	103.0
Capital assets	<u>183.2</u>	<u>237.4</u>	<u>(54.2)</u>
Total assets	645.5	596.7	48.8
Current and other liabilities	<u>1,313.7</u>	<u>1,358.0</u>	<u>(44.3)</u>
Total liabilities	<u>1,313.7</u>	<u>1,358.0</u>	<u>(44.3)</u>
Net position			
Invested in capital assets			
net of related debt	156.3	186.2	(29.9)
Unrestricted (Deficit)	(901.0)	(947.5)	46.5
Restricted - road fund	<u>76.5</u>	<u>.0</u>	<u>76.5</u>
Total net position	<u>(668.2)</u>	<u>(761.3)</u>	<u>93.1</u>

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

Governmental Activities

The City's general tax revenues increased when compared to the prior year by \$50,578. Property tax revenue increased due to increased property valuations and there was an increase in insurance tax collections. Insurance reimbursements totaling \$32,420 are included in other general revenues; these were for hail damage to City property.

Table 2
General Tax Revenues
(Amounts Expressed in Dollars)

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Taxes	570,652	520,074	50,578

Governmental activities increased the City's net position by \$93.1 thousand for the year ended June 30, 2013 and increased the City's net position by \$11.6 thousand for the year ended June 30, 2012. The key elements of this change are as follows:

Table 3
Changes in Net Position
(Amounts Expressed in Dollars)

	Governmental Activities		<u>Change</u>
	<u>2013</u>	<u>2012</u>	
	(See Page 16)		
Revenues			
Program revenues			
Charges for services	433,610	432,130	1,480
Operating grants and contributions	72,550	93,298	(20,748)
General revenues			
Taxes	570,652	520,074	50,578
Other	<u>47,045</u>	<u>14,317</u>	<u>32,728</u>
Total Revenues	<u>1,123,857</u>	<u>1,059,819</u>	64,038
Expenses			
General government	398,884	213,755	185,129
Public safety	428,343	558,510	(130,167)
Public works	19,953	92,379	(72,426)
Sanitation	<u>183,550</u>	<u>183,550</u>	<u>0</u>
Total expenses	<u>1,030,730</u>	<u>1,048,194</u>	<u>(17,464)</u>
Increase (Decrease) in Net Position	93,127	11,625	81,502
Net Position, July 1,	<u>(761,287)</u>	<u>(772,912)</u>	<u>11,625</u>
Net Position, June 30	<u><u>(668,160)</u></u>	<u><u>(761,287)</u></u>	<u><u>93,127</u></u>

CITY OF AUDUBON PARK, KENTUCKY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 JUNE 30, 2013

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$428.3 thousand. The most significant public safety expense was for personnel costs which totaled \$299.0 thousand. There has been some variation in the way some expenses have been assigned to individual categories from year to year, as can be seen in the expense portion of Table 3 on Page 12.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2013, the City had \$793.7 thousand invested in a broad range of capital assets, including equipment, buildings and land. This amount represents a net decrease (including additions and deductions) of \$2.5 thousand over the prior fiscal year.

Debt

At year end, the City had \$31,793 in short term debt and capital leases outstanding as compared to \$76,175 at the end of the prior fiscal year, a decrease of \$44,382.

Table 4
 Outstanding Debt
 (Amounts Expressed in Dollars)

	Governmental Activities	
	2013	2012
Commonwealth Bank	4,862	25,000
Capital leases	<u>26,931</u>	<u>51,175</u>
Totals	<u><u>31,793</u></u>	<u><u>76,175</u></u>

The City's Funds

At the close of the City's fiscal year on June 30, 2013, the governmental funds of the City reported a combined fund balance deficit of \$261.3 thousand. Revenues for the year exceeded expenditures by \$55.1 thousand. The City has to continually monitor expenditures closely in order to eliminate the deficit.

General Fund Budgetary Highlights - (See pages 30 and 31)

For fiscal year 2012-2013, actual expenditures on a budgetary basis were \$1,028.6 thousand compared to the budget amount of \$1,032.4 thousand. There was a \$3.8 thousand positive variance between actual and final budget expenditures.

For fiscal year 2012-2013 actual revenues on a budgetary basis were \$1,084.9 thousand as compared to the budget amount of \$1,097.1 thousand. The majority of the \$12.2 thousand negative variance was due to a shortfall in interest income, intergovernmental revenues, and other income.

On a budgetary basis, the City of Audubon Park, Kentucky has an actual, General Fund deficit balance of \$317.8 thousand as of the fiscal year end, compared to the budgeted surplus of \$64.6 thousand. (see last line in budgetary statement on page 30) The variance in fund balance is primarily due to the failure to update the fund balance carryover used for budgeting purposes, and because of an adjustment to eliminate inter-fund balances as shown on the first two lines of the same budgetary statement on page 30.

CITY OF AUDUBON PARK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

Economic Factors and Next Year's Budget and Rates

The largest single factor is the ability of the City to generate sufficient revenues to fund the basic cost of the services the City provides. The cost of salaries and the cost of providing police protection are significant.

Contacting the City's Financial Management

This financial report is intended to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, at 3340 Robin Road, Audubon Park, Kentucky, 40213, phone (502) 637-5066.

CITY OF AUDUBON PARK, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS</u>		
Cash	425,510.34	425,510.34
Due from other governments	6,798.72	6,798.72
Accounts receivable	<u>30,000.00</u>	<u>30,000.00</u>
Subtotal	462,309.06	462,309.06
Capital assets, net of accumulated depreciation		
Buildings	60,850.26	60,850.26
Equipment	85,052.55	85,052.55
Capital asset, non depreciable		
Land	<u>37,290.36</u>	37,290.36
Subtotal	<u>183,193.17</u>	<u>183,193.17</u>
Total Assets	<u><u>645,502.23</u></u>	<u><u>645,502.23</u></u>
<u>LIABILITIES</u>		
Bank short-term borrowings	4,862.36	4,862.36
Accounts payable	31,075.72	31,075.72
Accrued expenses	23,100.21	23,100.21
Deferred inflows	669,449.85	669,449.85
Lease payable - current	14,562.86	14,562.86
- long term	12,368.25	12,368.25
Post employment retirement benefits	<u>558,243.92</u>	<u>558,243.92</u>
Total Liabilities	1,313,663.17	1,313,663.17
<u>NET POSITION</u>		
Invested in capital assets	156,262.06	156,262.06
Restricted - road fund	76,588.18	76,588.18
Unrestricted deficit	<u>(901,011.18)</u>	<u>(901,011.18)</u>
Total Net Position	<u>(668,160.94)</u>	<u>(668,160.94)</u>
Total Liabilities and Net Position	<u><u>645,502.23</u></u>	<u><u>645,502.23</u></u>

CITY OF AUDUBON PARK, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expenses) and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Grants and Donations Operating</u>	<u>Capital</u>	<u>Governmental Activities</u>
<u>FUNCTIONS/ACTIVITIES</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	428,342.76	72,570.00	33,608.70	(322,164.06)	(322,164.06)
Public works	19,953.53		38,941.08	18,987.55	18,987.55
Sanitation	183,549.60	346,140.00		162,590.40	162,590.40
General government	<u>398,884.11</u>	<u>14,900.00</u>		<u>(383,984.11)</u>	<u>(383,984.11)</u>
Total Governmental Activities	1,030,730.00	433,610.00	72,549.78	(524,570.22)	(524,570.22)
<u>GENERAL REVENUES</u>					
Taxes					
Real Property				313,603.20	313,603.20
Insurance				224,448.60	224,448.60
Motor Vehicle				23,001.43	23,001.43
Franchise/Telecommunications				9,599.05	9,599.05
Other					
Hail Damage Reimbursement				36,222.53	36,222.53
Fees				<u>10,822.32</u>	<u>10,822.32</u>
Total General Revenues				<u>617,697.13</u>	<u>617,697.13</u>
<u>CHANGE IN NET POSITION</u>				93,126.91	93,126.91
<u>NET POSITION AT BEGINNING OF YEAR</u>				<u>(761,287.85)</u>	<u>(761,287.85)</u>
<u>NET POSITION AT END OF YEAR</u>				<u>(668,160.94)</u>	<u>(668,160.94)</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	367,492.82	58,017.52	425,510.34
Receivables (net, where applicable of allowances for uncollectibles)			
Intergovernmental	30,774.53	3,524.19	34,298.72
Other	2,500.00		2,500.00
Due from general fund	<u> </u>	<u>15,046.47</u>	<u>15,046.47</u>
 TOTAL ASSETS	 <u>400,767.35</u>	 <u>76,588.18</u>	 <u>477,355.53</u>
<u>LIABILITIES</u>			
Accounts payable	31,075.72		31,075.72
Accrued expenses	23,100.21		23,100.21
Deferred revenues	669,449.85		669,449.85
Due to special revenue fund	<u>15,046.47</u>	<u> </u>	<u>15,046.47</u>
 TOTAL LIABILITIES	 738,672.25		 738,672.25
<u>FUND BALANCE (DEFICIT)</u>			
Unassigned	(337,904.90)		(337,904.90)
Restricted - road fund		<u>76,588.18</u>	<u>76,588.18</u>
Total Fund Balance (Deficit)	<u>(337,904.90)</u>	<u>76,588.18</u>	<u>(261,316.72)</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>400,767.35</u>	 <u>76,588.18</u>	 <u>477,355.53</u>

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

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	336,604.63		336,604.63
Intergovernmental			
Court revenue	12,022.06		12,022.06
Grants	2,584.90		2,584.90
Municipal aid		38,941.08	38,941.08
Police and public works	91,571.74		91,571.74
Franchise tax	9,599.05		9,599.05
Licenses and permits	2,850.00		2,850.00
Insurance tax	224,448.60		224,448.60
Sanitation Fee	346,140.00		346,140.00
Hail Damage Reimbursement	36,222.53		36,222.53
Bond and Other Fee Revenue	<u>22,872.32</u>		<u>22,872.32</u>
Total Revenues	<u>1,084,915.83</u>	<u>38,941.08</u>	<u>1,123,856.91</u>
<u>EXPENDITURES</u>			
Current			
Police department	406,605.40		406,605.40
Public works		19,953.53	19,953.53
Sanitation	183,549.60		183,549.60
Administration	416,725.84		416,725.84
Debt repayment			
Police department (leases)	21,737.36		21,737.36
Administration (line of credit)	<u>95,137.64</u>		<u>95,137.64</u>
Total Expenditures	<u>1,123,755.84</u>	<u>19,953.53</u>	<u>1,143,709.37</u>
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>	(38,840.01)	18,987.55	(19,852.46)
<u>TRANSFERS IN - Line of Credit</u>	<u>75,000.00</u>		<u>75,000.00</u>
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS IN</u>	36,159.99	18,987.55	55,147.54
<u>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, as originally reported</u>	(147,962.75)	(168,501.51)	(316,464.26)
<u>ADJUSTMENT TO REMOVE INTER-FUND RECEIVABLE AND PAYABLE</u>	<u>(226,102.14)</u>	<u>226,102.14</u>	
<u>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, as restated</u>	<u>(374,064.89)</u>	<u>57,600.63</u>	<u>(316,464.26)</u>
<u>FUND BALANCE (DEFICIT) AT END OF YEAR</u>	<u>(337,904.90)</u>	<u>76,588.18</u>	<u>(261,316.72)</u>

See notes to financial statements.

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

Fund Balance (Deficit) of Governmental Funds	(261,316.72)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	183,193.17
Post Employment Retirement Benefits are not a current financial obligation. Therefore, they are not included in the governmental funds.	(558,243.92)
Loans and leases payable are not a current financial obligation. Therefore, they are not included in the governmental funds.	<u>(31,793.47)</u>
Net Position (Deficit) of Governmental Activities	<u><u>(668,160.94)</u></u>

CITY OF AUDUBON PARK, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 JUNE 30, 2013

Net Change in Fund Balances (Deficit) - Total Governmental Funds 55,147.54

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	.00
Depreciation expense	(51,680.00)

Other post employment benefits are recognized as a liability in the Statement of Net Position but not in the Balance Sheet of Governmental Funds. This amount represents the change in the liability.	47,784.37
---	-----------

Long-term loans and leases are reported as other financing sources when made and as expenditures when repaid in the governmental funds. This amount represents the change in the long-term loans and leases payable.	<u>41,875.00</u>
--	------------------

Change in Net Position (Deficit) of Governmental Activities	<u><u>93,126.91</u></u>
---	-------------------------

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Audubon Park conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 34 and these statements are presented according to those requirements. The following is a summary of the significant policies.

Basic Financial Statements

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) report on the City as a whole, no component unit entities exist. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The reconciliations on pages 19 and 20 will help the reader understand those differences.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. However, in the governmental funds financial statements interfund balances due to and from are shown. These amounts are the results of interfund repayments being in excess of actual amounts due.

The government-wide Statement of Net Position reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are financial statements for governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of the fund category), it also gives governments the option of displaying other funds as major funds.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for the financial resources provided by the State of Kentucky through its Municipal Road Aid Funds. These funds are earmarked for maintenance, rehabilitation, or improvements of public streets.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. The modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, intergovernmental revenues, and municipal road aid funds.
- B. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include:
 - 1) Accumulated unpaid vacation and sick pay which are not accrued. As of June 30, 2013 accumulated unpaid vacation and sick pay is estimated to total \$20,019.34.
 - 2) During a prior year the City adopted a change to its retirement program in its Personnel/Civil Service Policy. The City has adopted an unfunded program to pay a retirement benefit to each employee with at least five years consecutive employment.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The program pays a monthly amount that is determined by the length of consecutive employment and the gross pay earned in the calendar year preceding the date of termination of employment. This benefit ranges from a low of 30% of gross pay for 36 months to a high of 60% of gross pay for 120 months.

Three persons have become eligible for this benefit and two are receiving a benefit. The cost of this benefit during the current fiscal year was \$72,624.63. As required by GASB 45 the City is required to include in its financial statements an actuarially computed amount of its unfunded obligation. The amount has been included in the Statement of Net Position as a Post Employment Retirement Benefits Accrual.

See MD&A and findings for more discussion related to this topic.

- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Loan proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unassigned fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate the sources and uses of liquid resources, and 2) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided on pages 19 and 20. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

Budgets

The City has ordained for itself a number of prescribed practices regarding the development of a budget, and for amending the budget once it is accepted by the governing body of the City. An annual budget is required by Kentucky Revised Statutes that, once accepted by the City's governing body, becomes the legal boundary of that government's appropriations and expenditures for that year. The City's annual budget conforms to generally accepted accounting principles. The budget was amended by an ordinance during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The City has not adopted a capitalization threshold.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

GASB Statement No. 34 allows cities with net assets under 10 million dollars to elect to not report infrastructure assets on a retroactive basis. The City has elected to not report on a retroactive basis.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	40/15	years
Machinery and equipment	10/7/5	years

Depreciation expense for the year was charged to functions/programs of the primary government as follows:

General Government	\$ 6,135.00
Public Safety	43,467.00
Public Works	<u>2,078.00</u>
	<u>51,680.00</u>

Total accumulated depreciation for current capital assets for all prior periods was \$558,856.00.

Property Tax

Property is assessed as of January 1. Total assessed value was \$115,485,830.00 and the tax rate was .2720 cents per one hundred dollars of assessed valuation.

Taxes were levied for the fiscal year of July 1, 2012 to June 30, 2013 on March 31, 2012 and are payable by June 30, 2012. City real property tax revenues are recognized in the fiscal year beginning July 1, 2012. Any real property tax unpaid at June 30 or 60 days thereafter is deemed uncollectible for financial reporting purposes. The total of unpaid real property taxes at June 30, 2013 was \$.00. Deferred in flows includes property taxes and sanitation fees levied for the fiscal year beginning July 1, 2013 collected in advance in the amount of \$641,949.85. However, at June 30, 2013, as can be seen in Note 2, only \$367,192.82 of this amount collected in advance was remaining to be spent in the fiscal year beginning July 1, 2013.

NOTE 2 - SCHEDULE OF CASH

<u>Fund</u>	<u>Financial Institution</u>	<u>Bank</u> <u>Balance</u>	<u>Insured</u>	<u>Collateralized</u>
General	Commonwealth Bank	367,192.82	FDIC	Pledge Agreement
		367,192.82		
Special Revenue				
Municipal Aid	Commonwealth Bank	58,017.52	FDIC	
Petty Cash		300.00		
		<u>425,510.34</u>		

Through December 31, 2012, all non-interest-bearing transaction accounts are fully insured by the FDIC regardless of the account balance. On January 1, 2013 the FDIC insurance limit was \$250,000.00. Amounts on deposit in excess of FDIC insurance are collateralized by a pledge of securities held by the financial institution.

NOTE 3 - INVESTMENT POLICY

The City does not have a written investment policy.

NOTE 4 - RISK MANAGEMENT/CONTINGENCIES

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies. There have been no significant reductions in insurance coverage from 2012 to 2013. Settlements, less deductibles, have not exceeded insurance coverage during the past three years. The City's attorney has advised that the City will not incur any loss in excess of insurance deductibles as a result of any lawsuits pending as of June 30, 2013.

NOTE 5 - CAPITALIZED LEASE AGREEMENT

The City borrowed money to acquire one new police cruiser in the prior fiscal year. This loan was for \$35,131.10 and is repayable in fourteen quarterly installments of \$2,473.65 principal and interest beginning March 19, 2012. The balance of this loan at June 30, 2013 was \$22,262.85. The quarterly installments of principal and interest will be paid as follows:

6/30/14	9,894.60
6/30/15	9,894.60
6/30/16	2,473.65

CITY OF AUDUBON PARK, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

The City borrowed money to acquire two new police cruisers during the year ended June 30, 2011. One of the loans was paid off during the current fiscal year. The other will be paid off during the year ending June 30, 2014. The balance of this loan at June 30, 2013 was \$4,668.26

NOTE 6 - **INDUSTRIAL REVENUE BOND ISSUES**

The City has issued numerous revenue bonds as of June 30, 2013. These bonds are not debts of the City and the City has no obligation to repay principal and interest. The City receives fees on an annual basis as consideration for issuing the bonds. Fees received during the current fiscal year totaled \$12,050.00.

NOTE 7 - **CHANGES IN GENERAL FIXED ASSETS:**

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>	<u>Accumulated Depreciation</u>
Land	37,290.36			37,290.36	
Buildings	143,744.26			143,744.26	82,894.00
Equipment	214,987.30			214,987.30	183,977.00
Vehicles	<u>400,213.49</u>		<u>2,506.24</u>	<u>397,707.25</u>	<u>343,665.00</u>
	<u>796,235.41</u>		<u>2,506.24</u>	<u>793,729.17</u>	<u>610,536.00</u>

NOTE 8 - **LINE OF CREDIT**

The City has a \$200,000 line of credit with Commonwealth Bank and Trust Company. The balance on the line of credit was \$4,862.36 at June 30, 2013. Interest of \$2,379.72 was paid during the fiscal year.

NOTE 9 - **DEFERRED IN FLOWS (REVENUES)**

The City's deferred in flows (revenues) at June 30, 2013 consisted of advance payments or billings as follows:

2013 - 2014 Property Taxes	317,409.85
2013 - 2014 Sanitation Fees	324,540.00
2013 - 2014 Police Service Fees	<u>27,500.00</u>
Total at June 30, 2013	<u>669,449.85</u>

NOTE 10 - **ADJUSTMENT TO REMOVE INTER-FUND RECEIVABLE AND PAYABLE**

In prior years expenditures from the general fund for the activities of the municipal road fund were accounted for through an inter-fund receivable and payable. This inter-fund activity balance was eliminated through an adjustment to the beginning fund balances.

NOTE 11 - **SUBSEQUENT EVENTS**

A former city resident has filed a lawsuit alleging that the City collected tax for one purpose and expended the funds for City purposes other than that for which the tax was collected.

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

2455 CRITTENDEN DRIVE
LOUISVILLE, KY 40217-1813

TELEPHONE: (502) 634-8351

FAX: (502) 634-5594

CPA ASSOCIATES

ROBIN F. OWENS, CPA
CAROL L. PIERCE, CPA
ROBERT M. BARGER, CPA

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

Honorable Mayor and City Council
City of Audubon Park, 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, business-type activities, and each major fund of the City of Audubon Park, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Audubon Park, Kentucky's basic financial statements and have issued our report thereon dated March 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Audubon Park Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Audubon Park, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Audubon Park, 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. 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.

As part of obtaining reasonable assurance about whether the City of Audubon Park, Kentucky'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as items 2013-1 to 2013-6:

City of Audubon Park, Kentucky's Response to Findings

City of Audubon Park, Kentucky's response to the findings identified in our audit are described on page 29 and further elaborated in the MD&A. City of Audubon Park, 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 result 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.

Henson & Associates
Certified Public Accountants

Louisville, Kentucky

March 17, 2014

SUPPLEMENTARY INFORMATION

CITY OF AUDUBON PARK, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

Finding 2013-1:

The City's general fund was in a deficit balance as of June 30, 2013.

Response:

City officials acknowledge that a deficit exists and that they are addressing this matter by monitoring expenditures.

Finding 2013-2:

The City's general government expenditures were in excess of its budget.

Response:

City officials acknowledge the budget ordinance was violated and that budget ordinances in the future will be amended on a timely basis when required.

Finding 2013-3:

The City's sanitation revenue and expenditures were not accounted for in a special revenue account.

Response:

City officials acknowledge the sanitation revenues and expenditures were previously not accounted for in a special revenue account. However, subsequent to June 30, 2013 a special revenue account was set up.

Finding 2013-4

The City's sanitation revenues were in excess of direct sanitation service costs.

Response:

City officials acknowledge that sanitation revenues were in excess of direct sanitation service costs and have adjusted the next year's budget accordingly. City officials are examining prior period storm clean up costs to determine an appropriate reserve to be established for future storm clean up costs.

Finding 2013-5

The City in a prior year established a post employment retirement benefit plan. The basic legality of this plan has been called into question.

Response:

City officials are having legal counsel examine the legality of this plan.

Finding 2013-6

The City has established an ethics ordinance which requires a financial disclosure annually from elected officials and those running for public office. The disclosures for the 7/1/12 to 6/30/13 fiscal year were not available.

Response:

City officials were unable to locate those disclosures and are not aware that they were completed.

CITY OF AUDUBON PARK, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1			(147,962.75)	(147,962.75)
Adjustment to eliminate inter-fund balances	<u> </u>	<u> </u>	<u>(226,102.14)</u>	<u>(226,102.14)</u>
Budgetary Fund Balance, as restated, July 1			(374,064.89)	(374,064.89)
Resources (Inflows):				
Property taxes	337,000.00	337,000.00	336,604.63	(395.37)
Licenses and permits	1,500.00	1,500.00	2,850.00	1,350.00
Intergovernmental	138,600.00	143,732.38	106,178.70	(37,553.68)
Insurance taxes	145,000.00	180,387.44	224,448.60	44,061.16
Franchise taxes	14,500.00	14,500.00	9,599.05	(4,900.95)
Sanitation	345,600.00	345,600.00	346,140.00	540.00
Other	45,000.00	66,369.45	59,094.85	(7,274.60)
Interest Income	<u>8,000.00</u>	<u>8,000.00</u>	<u> </u>	<u>(8,000.00)</u>
Total Resources	<u>1,035,200.00</u>	<u>1,097,089.27</u>	<u>1,084,915.83</u>	<u>(12,173.44)</u>
Amounts Available for Appropriation	1,035,200.00	1,097,089.27	710,850.94	(386,238.33)
Charges to Appropriations (Outflows):				
Current:				
General government	295,450.00	301,450.00	411,725.84	(110,275.84)
Public safety	528,000.00	542,000.00	428,342.76	113,657.24
Sanitation	184,000.00	184,000.00	183,549.60	450.40
Garden Club	<u>5,000.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u> </u>
Total Charges to Appropriations	<u>1,012,450.00</u>	<u>1,032,450.00</u>	<u>1,028,618.20</u>	<u>3,831.80</u>
Budgetary Fund Balance, June 30	<u>22,750.00</u>	<u>64,639.27</u>	<u>(317,767.26)</u>	<u>(382,406.53)</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	73,000.00	73,000.00	(168,501.51)	(241,501.51)
Adjustment to eliminate inter-fund balances	<u> </u>	<u> </u>	<u>226,102.14</u>	<u>226,102.14</u>
Budgetary Fund Balance, as restated, July 1	73,000.00	73,000.00	57,600.63	(15,399.37)
Resources (Inflows):				
Intergovernmental	32,400.00	32,400.00	38,941.08	6,541.08
Interest Income	<u>2,600.00</u>	<u>2,600.00</u>	<u> </u>	<u>(2,600.00)</u>
	<u>35,000.00</u>	<u>35,000.00</u>	<u>38,941.08</u>	<u>3,941.08</u>
Amounts Available for Appropriation	108,000.00	108,000.00	96,541.71	(11,458.29)
Charges to Appropriations (Outflows):				
Public works	<u>58,000.00</u>	<u>58,000.00</u>	<u>19,953.53</u>	<u>38,046.47</u>
Total Charges to Appropriations	<u>58,000.00</u>	<u>58,000.00</u>	<u>19,953.53</u>	<u>38,046.47</u>
Budgetary Fund Balance, June 30	<u>50,000.00</u>	<u>50,000.00</u>	<u>76,588.18</u>	<u>26,588.18</u>

See notes to financial statements.