

**CITY OF AUDUBON PARK, KENTUCKY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**

**CITY OF AUDUBON PARK, KENTUCKY  
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**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Councilmembers  
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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' 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. 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***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 on pages 2-9 and 16-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 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 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.



Welenken CPAs

Louisville, Kentucky  
December 15, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**MAYOR'S MANAGEMENT OVERVIEW**

This fiscal year has been dominated by retooling and reform, as the City has aimed simultaneously to restore solvency, and to undertake major changes in policy and procedure to provide for a stable and productive future. The City Council concluding its term at the end of this calendar year has shown unprecedented energy and activism in pressing for and shaping change, and an almost entirely new City government has devoted itself to a new era of resoluteness and integrity. This audit report, while indicating clearly that much remains to be done, is an encouraging sign that progress is significant and real.

*Staffing and Mobilization*

A new Mayor joined a new City Clerk in November, and other key fills came in the months that followed, including a new Police Chief, City Attorney, Engineer, building inspector, and a full complement of police officers. The police force was reordered and streamlined around a cadre of experienced part-time officers already vested with employee benefits from previous assignments. Staff policies and procedures continue to evolve around a strong service ethic, personal responsibility and close community relations.

As this audit's findings affirm, one continuing challenge has been finding a stable way to conduct the City's bookkeeping. A professional accounting firm handled the entire function remotely on contract for most of this fiscal year, but the relationship lacked necessary oversight and control. A part-time arrangement in-house looked promising, but couldn't be sustained on a volunteer basis. With several major changes in fiscal policy still to implement in the new fiscal year, a consulting firm was engaged to manage the transition and keep books in the short term. While helpful in compiling material essential to the financial statements comprising this report, this outsourcing dynamic has again been difficult, and the City is seeking to return to an in-house, part-time bookkeeper when a suitable candidate can be found (see remarks on findings at the end of this report).

Most of the City's board appointments had expired or were vacant; over the year the ranks of the Code Enforcement, Ethics and Forest Boards have been filled and prescribed staggered terms reinstated, and a new Parks and Recreation Board has been formed and members appointed.

Citizens' willingness to step up informally when things need doing has proven an inspiration. Participation keeps increasing in Park Beautification Days, Brightside entrance cleanups, spontaneous trash patrols and drain clearance, Garden Club planting and caring, Christmas decoration of public places, and of course the inimitable 'elves' who magically appear whenever mass mailings or hand distribution of essential community information are needed. These are the elements of character that define the spirit of Audubon Park, and account for critical components of community programs and activity that wouldn't otherwise be possible within the limited financial resources detailed in this report.

**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

*Community Development*

The Forest Board has done phenomenal planting and maintenance to restore our urban canopy, and help counter the effects of nearby barren areas like the Fairgrounds and the airport. Some City revenue has been made available this year to support the Board's work, and has helped pay for major projects like cabling and pruning of older trees in the parks. In addition to age and urban environment, the emerald ash borer has joined other insect and disease threats to complicate the Board's work, so they deserve special credit for their steely determination to restore and sustain this defining feature of the Audubon Park landscape.

Because our small parks are public spaces, in addition to maintaining their natural beauty, it's important they attract people, especially our children, with facilities they want to use. Some members of the Forest Board have begun a 'playscapes' initiative to plan fun things that blend smoothly into a natural environment: tire swings, log hops, treehouses, underbrush fortresses, etc. They'll be working closely with the new Parks & Recreation Board to identify suitable locations and facilities for the new generation.

The "Recreation" aspect of the new board will be charged with pulling together the array of neighborhood fellowship activities that have been either discussed or conducted over this past year by various groups and individuals, providing a City government resource for planning, communicating, supporting and documenting. There have been obvious successes with Community Christmas, the Dogwood Festival, Arbor Day plantings, Memorial Day flag ceremony, Independence Day parade, and others; further discussions have included movie nights, concerts, farmer's markets, 5- or 10K run events, and similar prospects.

*City Services*

City Hall has many long-neglected areas of upkeep that had to be deferred in FY 14 in favor of gaining overall solvency. Looking ahead, straightforward but costly maintenance projects like painting, plumbing, heating and office equipment will have to be fulfilled as resources are available. Government disposal and grant programs will be used to the maximum extent possible to procure common kit like file cabinets and physical security. But even more pressing are the computer resources to conduct business and compile records - resources that are dangerously outdated, unprotected, and not replaceable from disposed stock because of continuing technological advances. A contract will be undertaken in FY 15 to replace key components of hardware and software so our system is up to modern standards, and thus more secure, productive, and ready for a coherent recordkeeping system.

Like the internal systems in City Hall, the roads define the network that connects the City, and had been in an equal state of neglect. Essential repairs and replacement were budgeted for FY 14, but contracts could only be completed in the new year beginning in July, so resources reflected in this audit will be carried over for accounting in the next report. This project used all the resources available to shore things up without taking on massive new debt. New revenue coming over time from state aid or internal resources can now be devoted to new needs as they arise.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

Several ups and downs have occurred in the first year-plus of a 3-year waste management contract, including one entire missed pickup last winter; excess charges from failing to update the bill from the previous contract; failure to pick up selected waste in accordance with the contract; an incident of theft from a resident by an employee; and no implementing guidance on revised Metro yard waste policy. Contractor executives have engaged with City Hall to discuss these issues, but have taken only limited steps to correct them, a matter of continuing attention given this function's standing as the City's single largest contract expense.

*Policies and Programs*

The City's key prerequisite to smooth and coherent governance is getting its records in order - out of uncatalogued folders in unnumbered boxes, and into a state-prescribed file structure in secure containers. On-site and off-, paper and electronic, the whole must provide a clear, complete, searchable and retrievable archive of the City's business. Because of the magnitude and indefinite duration of the effort, a new City official, the Archivist, is being proposed in the coming year to implement and oversee the effort to put together the necessary manpower, equipment and regulatory effort to undertake this work, at minimal expense.

A critical project to update our Code of Ordinances to incorporate newer laws, eliminate inconsistencies, and conform to changes in state and Federal law, is well along this year, thanks to Council efforts to secure state grant support, and devote reinforcing City Attorney oversight, to generate a credible product. In the new fiscal year, an initial draft administrative review has been put in our Attorney's hands for screening, while a separate contracted legal review is also under way.

In broader legal matters, the City's spirit has been tested several times, either by litigation or threat thereof, challenging its authority to govern, and thus its viability as a civic unit. Cases involving building codes, drainage regulation, nuisance abatement and pension policy have unfortunately had to coexist with older and more troubling cases of employee discrimination, whistleblower retaliation, police mistreatment and tax/fee policy. It's ironic that the older cases, generally just involving money damages, are handled largely by our insurer, while the more recent cases of principle we must defend on our own, at least until we prevail. But our fortitude is at stake. Perseverance and focus will remain essential to preserving the integrity and character of our small city.

The largest single volume of City government's work this year, however, has focused on restoring our financial health. As reported in the fund balances table on page 14, the City began the fiscal year with an actual cash deficit in the general fund (first column, next-to-last entry) of some \$338,000. In practical terms, this was cash subtracted from the revenue listed as available to execute the City's budget, due to overspending in previous years.

Past fiscal policies and management practices were found to include

- early (by several months) collection of annual property tax revenue, and commingling of the proceeds in the general fund account, making them indistinguishably available for spending before the fiscal year for which collected;
- increasing illegitimate overcharges in the City's sanitation fee, eventually reaching a level almost double the actual cost of contracted waste collection services - with proceeds, again, indiscriminately commingled with general funds;

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

- routine attribution of every expense even remotely related to City roads to the restricted road fund, so that the mounting deficit appeared largely, at least on paper, in the road fund rather than the general fund. This practice both facilitated additional overspending in the general fund, and suppressed any actual road maintenance work.

The apparent objective, and eventual effect, of these policies and practices was a lavishly manned and equipped police force, with generous pay and benefit packages, including an otherwise unfunded (and therefore, as it turned out, unlawful) pension program. But the mounting deficit punctuated the unsustainability of this dynamic, demanding radical change.

The Council worked long and hard to devise painful cuts to achieve apparent balance in the FY14 budget. But, being unaware of the accumulated deficit, their primary aim was to set aside excess sanitation fees for the year, through reduced spending, expecting them to be escrowed in a separate account to be refunded to taxpayers. The set-aside appeared in subsequent monthly financial reports - but with the much larger deficit, there was no actual cash to deposit in such an account, so no such action was taken.

This only became apparent after the new administration took office in the late fall, shortly discovering that there would not be adequate cash to meet expenses for the remainder of the fiscal year, even discounting the sanitation set-aside.

Several strenuous budgetary steps were taken to overcome this deficit:

- absorbing excess waste management fees already collected for the fiscal year. As noted above, sanitation fees had grown to nearly double the actual contract cost of the waste management program; they've been reduced for future years to the contract cost and a small storm damage reserve. The intended FY 14 set-aside was reluctantly applied against the deficit, since the funds were already spent. Bills for FY 15, however, reflected the reduction described.
- discontinuing unfunded pension payments for the last quarter, after it was clearly established that the program providing for them was an illegal undertaking.
- selling off excess City property, including vehicles, weapons and electronics, and discontinuing unnecessary services.
- exercising fiscal discipline, including minimized purchasing, deferred maintenance, collecting due-in revenue, and disputing questionable bills.
- executing a short-term line of credit to cover cash flow.

The resulting figure (page 14, first column, last entry) reduces the deficit at the end of FY 2014 to \$70,000. The staff and City Council deserve enormous credit for bold decision-making, superhuman penny-pinching and forbearance to make this result possible. And, looking ahead, it's worth noting that the FY 15 budget covers this remaining deficit at the outset, so the City is now entirely solvent.

Through this period of budgetary struggle, the City has undertaken a series of fundamental fiscal policy changes aiming to keep a situation like this from recurring in the future.



**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

- . Restricted funds have been established in earnest for both road maintenance and waste management, featuring separately constituted bank accounts, with strict rules for deposits and withdrawals to secure their restricted status.
- . Discrete mirroring accounts have been established for successive fiscal years for each fund, in separate banks, so funds can't be overspent without extraordinary measures in full transparency.
- . The annual tax schedule has been realigned so that collections for the upcoming budget cycle are completed only in time for its execution. This shift will provide that
  - . current property valuations are available to determine appropriate tax rates;
  - . the upcoming budget can be formulated first, so tax rates can be planned to meet actual revenue needs; and
  - . funds will not be available for spending ahead of the upcoming budget cycle for which collected.
- . Fiscal discipline is being institutionalized, through enhancement of standardized procedures for more careful and resolute husbanding of City resources, and better financial reporting, scrutiny and budget accountability.
- . Line-of-credit borrowing is set aside as a discrete and transparent process, to discourage additional spending unless absolutely necessary.
- . A project is under way to establish full and ongoing inventory and individual user accountability for City property and capital assets.
- . Excess supplies and equipment will continue to be disposed of, both to help meet budget targets and to maintain an environment of economy and efficiency.
- . Strict and secure management is being imposed on City records and policy documents, paper and electronic, both to insure access to historical materials and to support future fiscal planning with solid and accessible information.
- . Efforts will continue to find creative ways and means to meet future needs for equipment and program support, through such avenues as intergovernmental transfers, grants, and public-private partnerships, thus relieving pressure on City taxes and fees.

Our continuing larger challenge is to restore community faith and confidence, by not just attaining 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 maintenance, park development and community-friendly facilities, services and activities. Welcome to Audubon Park.

**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Other supplemental information in addition to the basic financial statements is also included.

**A. Government-Wide Financial Statements**

Government-wide financial statements include the Statement of Net Position and the Statement of Activities. The statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. In accrual accounting, revenues earned and expenses incurred in the fiscal year are taken into account in the financial statements regardless of when cash is actually received or paid.

The Statement of Net Position provides information on all City assets and liabilities, with the difference between assets and liabilities reported as net position. Increases or decreases in the net position over time are one indicator of whether the City's financial health is improving, stagnating, or deteriorating. Information on other factors, such as changes in the revenue structure and the condition of the City's assets, is also needed to assess the overall financial situation of the City.

The Statement of Activities provides information on the City's annual revenues and expenses, as well as other transactions that increase or reduce net position.

**B. Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City only has governmental funds to be presented in the fund financial statements.

Governmental funds focus on how money flows to and from those funds and the balances left at year-end that are available for spending. Funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The relationship between the governmental activities (reported in the Statement of Net Position and Statement of Activities) and the governmental funds is described in a reconciliation, which is presented immediately following the fund financial statements. Under accounting guidelines, the City considers both the General Fund and two Special Revenue Funds (Municipal Road Aid and Sanitation) to be major governmental funds.

**C. Notes to the Financial Statements**

These notes provide additional information needed to fully understand the government-wide and fund financial statements.

**D. Other Information**

This report presents certain required supplementary information concerning the City's budgetary comparison schedules for the General Fund and the Special Revenue Funds, in addition to the basic financial statements and accompanying notes.

**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As previously indicated, net position may serve over time as a useful indicator of the City's financial position. A portion of the City's net position \$138,259, or 173%, (total net position balance is \$79,971), reflects its net investment in capital assets net of related depreciation. The City uses these capital assets to provide services to residents and as a result, these assets are not available for future spending.

An additional portion of the City's net position \$272,186, or 340%, (total net position balance is \$79,971), represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of (\$330,474), or (413%), represents unrestricted net deficit.

Governmental activities increased the City's net position by \$189,888. This increase has expanded expendable funds.

Total assets at June 30, 2014 were \$784,643, of which \$138,259, or 18%, consisted of capital assets. In comparison, total assets for the prior year were \$645,502, of which \$183,193, or 28%, consisted of capital assets.

Total revenues for the 2013-2014 fiscal year were \$1,097,409, as compared to prior year total revenue of \$1,123,857. Approximately 30%, or \$332,805 of current year revenue is from property taxes and approximately 31%, or \$336,420 of current year revenue is from sanitation fees, which is the largest source of revenue for the City. Property taxes were assessed at \$0.283 per \$100 of assessed value.

Total expenses for the 2013-2014 fiscal year were \$907,521, which is \$123,209 less than prior year total expenses of \$1,030,730. The City's three major expenses and their percentage of total expenses are as follows:

	<u>2014</u>		<u>2013</u>	
Public safety	\$445,982	49%	\$428,343	41%
General government	\$230,993	25%	\$398,884	39%
Sanitation	\$184,658	21%	\$183,550	18%

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial reporting focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information, particularly *unassigned fund balance*, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$41,712. The General Fund's unassigned balance is (\$70,022). The General Fund is the chief operating fund of the City. At the end of the 2013-2014 fiscal year, the General Fund deficit balance was (\$70,022).

The Special Revenue Fund (Road Aid), which is restricted for road expenditures, has a total fund balance of \$111,734. The net increase in the Special Revenue Fund (Road Aid) balance for the fiscal year was \$35,146.

The Special Revenue Fund (Sanitation), which is committed to sanitation expenses, was segregated in fiscal year 2014 for revenue and expenses relating to fiscal year 2015 and later. Fund balance at June 30, 2014 was \$-0-.

**CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual charges to appropriations (expenditures) were \$145,151 less than the final budgeted amounts. The largest negative variance occurred in the City's police department which was over budget by \$33,420 due to an increase in unemployment taxes. The most significant positive variance occurred in the City's sanitation account, where the budgeted expenses were \$158,782 greater than actual.

In addition, resources available for appropriation were \$114,185 greater than the final budgeted amount. The final budget included \$675,265 of property tax and sanitation fee revenue in comparison to the \$669,225 actually collected. The proceeds from line of credit was the most significant positive variance.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

The City's investment in capital assets for governmental activities as of June 30, 2014 is \$138,259 (net of accumulated depreciation). No road work was started or completed in fiscal year 2014.

**B. Long-Term Debt**

The City paid off all capital lease obligations during fiscal year 2014.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

There are currently no economic factors that are expected to change the outlook of the revenue or expenses for the City in the next year. In addition, no rate changes or large budget changes are anticipated.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general financial overview for those interested in the City's government finances. Questions or requests for additional financial information may be addressed to Dorn Crawford, Mayor, City of Audubon Park, 3340 Robin Road, Louisville, KY 40213.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF AUDUBON PARK, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 600,622
Property taxes receivable	23,230
Other receivables	22,532
Capital assets, net of depreciation	<u>138,259</u>
Total Assets	<u>784,643</u>
 <b>LIABILITIES</b>	
Accounts payable	58,501
Accrued expenses	12,099
Note payable - line of credit	<u>100,000</u>
Total Liabilities	<u>170,600</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue applicable to future years	344,091
Sanitation fee revenue applicable to future years	<u>189,981</u>
Total Deferred Inflows of Resources	<u>534,072</u>
 <b>NET POSITION</b>	
Invested in capital assets, net of related depreciation	138,259
Restricted	272,186
Unrestricted	<u>(330,474)</u>
Total Net Position	<u><u>\$ 79,971</u></u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

<b>PRIMARY GOVERNMENT</b>	Governmental Activities			
	Expenses	Charges for Services	Operating Grants	Total
<u>FUNCTIONS/PROGRAMS</u>				
General government	\$ 230,993	\$ -	\$ -	\$ (230,993)
Sanitation	184,658	336,420	-	151,762
Public safety	445,982	74,950	31,631	(339,401)
Public works	45,888	-	35,146	(10,742)
Total Primary Government	907,521	411,370	66,777	(429,374)
<b>GENERAL REVENUES</b>				
Property taxes				332,805
Insurance taxes				223,548
Motor vehicle taxes				25,706
Franchise taxes				8,349
Licenses and permits				1,550
Investment earnings				2,596
Gain on sale of assets				13,767
Miscellaneous				10,941
				619,262
Total General Revenues				619,262
<b>CHANGE IN NET POSITION</b>				189,888
<b>NET POSITION, BEGINNING OF YEAR</b>				(109,917)
<b>NET POSITION, END OF YEAR</b>				\$ 79,971

See accompanying notes to financial statements.

## **FUND FINANCIAL STATEMENTS**



**CITY OF AUDUBON PARK, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

**ASSETS**

	<u>General Fund</u>	<u>Special Revenue Fund (Road Aid)</u>	<u>Special Revenue Fund (Sanitation)</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash	\$ 328,441	\$ 93,636	\$ 178,545	\$ 600,622
Property taxes receivable	23,230	-	-	23,230
Other receivables	8,044	3,052	11,436	22,532
Due from general fund	-	15,046	-	15,046
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 359,715</u>	<u>\$ 111,734</u>	<u>\$ 189,981</u>	<u>\$ 661,430</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**

<b>Liabilities</b>				
Accounts payable	\$ 58,501	\$ -	\$ -	\$ 58,501
Accrued expenses	12,099	-	-	12,099
Due to special revenue funds	15,046	-	-	15,046
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>85,646</u>	<u>-</u>	<u>-</u>	<u>85,646</u>
<b>Deferred Inflows of Resources</b>				
Unearned revenue - property taxes	344,091	-	-	344,091
Unearned revenue - sanitation fees	-	-	189,981	189,981
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Deferred Inflows of Resources	<u>344,091</u>	<u>-</u>	<u>189,981</u>	<u>534,072</u>
<b>Fund Balances</b>				
Restricted				
Special Revenue	-	111,734	-	111,734
Unassigned	(70,022)	-	-	(70,022)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>(70,022)</u>	<u>111,734</u>	<u>-</u>	<u>41,712</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 359,715</u>	<u>\$ 111,734</u>	<u>\$ 189,981</u>	<u>\$ 661,430</u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

Total fund balances for governmental funds	\$ 41,712
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the governmental funds	138,259
Notes payable are not a current financial obligation, therefore, they are not included in the governmental funds	<u>(100,000)</u>
Total net position of governmental activities	<u>\$ 79,971</u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2014**

	General Fund	Special Revenue Fund (Road Aid)	Special Revenue Fund (Sanitation)	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 332,805	\$ -	\$ -	\$ 332,805
Insurance taxes	223,548	-	-	223,548
Sanitation fees	336,420	-	-	336,420
Motor vehicle taxes	25,706	-	-	25,706
Franchise fees	8,349	-	-	8,349
Intergovernmental revenue	31,631	35,146	-	66,777
Police and public works	78,445	-	-	78,445
License and permits	1,550	-	-	1,550
Investment earnings	2,596	-	-	2,596
Proceeds from sale of assets	32,504	-	-	32,504
Proceeds from line of credit	100,000	-	-	100,000
Miscellaneous revenue	7,446	-	-	7,446
Total Revenues	<u>1,181,000</u>	<u>35,146</u>	<u>-</u>	<u>1,216,146</u>
<b>EXPENDITURES</b>				
Police department	424,572	-	-	424,572
Public works	44,030	-	-	44,030
Sanitation	184,658	-	-	184,658
Administration	228,174	-	-	228,174
Lease payments	26,821	-	-	26,821
Line of credit payments	4,862	-	-	4,862
Total Expenditures	<u>913,117</u>	<u>-</u>	<u>-</u>	<u>913,117</u>
<b>CHANGES IN FUND BALANCES</b>	<u>267,883</u>	<u>35,146</u>	<u>-</u>	<u>303,029</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>(337,905)</u>	<u>76,588</u>	<u>-</u>	<u>(261,317)</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ (70,022)</u>	<u>\$ 111,734</u>	<u>\$ -</u>	<u>\$ 41,712</u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

Changes in fund balances - governmental funds \$ 303,029

The change in net position reported for governmental activities  
in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets are allocated over their  
estimated useful lives and reported as depreciation expense. This is the  
amount by which capital outlays (\$15,044) are less than depreciation  
(\$41,241) in the current period. (26,197)

Governmental funds report gross proceeds from sale of capital assets as  
revenue. However, in the statement of activities, the cost of these assets  
are netted against the proceeds from the sale of the asset. This is the  
cost of the asset sold less depreciation. (18,737)

Governmental funds report loan payments and capital lease payments  
as expenditures. However, in the statement of activities, the payments  
are allocated over the term of the loan or lease. Governmental funds  
also report loan proceeds as revenue. This is the amount of loan proceeds  
in excess of loan payments and lease payments in the current period. (68,207)

Change in net position of governmental activities \$ 189,888

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Amounts</u>
Budgetary fund balance, July 1	\$(337,905)	\$(337,905)	\$(337,905)	\$ -
Resources (inflows):				
Property taxes and sanitation fees	675,265	675,265	669,225	(6,040)
Insurance taxes	220,000	220,000	223,548	3,548
Motor vehicle taxes	22,000	22,000	25,706	3,706
Franchise fees	10,000	10,000	8,349	(1,651)
Intergovernmental revenue	42,800	42,800	31,631	(11,169)
Police and public works	80,000	80,000	78,445	(1,555)
License and permits	2,500	2,500	1,550	(950)
Investment earnings	5,000	5,000	2,596	(2,404)
Proceeds from sale of capital assets	-	-	32,504	32,504
Proceeds from line of credit	-	-	100,000	100,000
Miscellaneous revenue	9,250	9,250	7,446	(1,804)
Amounts available for appropriation	<u>728,910</u>	<u>728,910</u>	<u>843,095</u>	<u>114,185</u>
Charges to appropriations (outflows):				
Police department	391,152	391,152	424,572	(33,420)
Public works	51,326	51,326	44,030	7,296
Sanitation	343,440	343,440	184,658	158,782
Administration	257,785	257,785	228,174	29,611
Lease payments	14,565	14,565	26,821	(12,256)
Line of credit payments	-	-	4,862	(4,862)
Total charges to appropriations	<u>1,058,268</u>	<u>1,058,268</u>	<u>913,117</u>	<u>145,151</u>
Budgetary fund balance, June 30	<u><u>\$(329,358)</u></u>	<u><u>\$(329,358)</u></u>	<u><u>\$ (70,022)</u></u>	<u><u>\$ 259,336</u></u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND (ROAD AID)**  
**YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Budgetary fund balance, July 1	\$ 76,588	\$ 76,588	\$ 76,588	\$ -
Resources (inflows):				
Municipal road aid	<u>36,000</u>	<u>36,000</u>	<u>35,146</u>	<u>(854)</u>
Amounts available for appropriation	<u>112,588</u>	<u>112,588</u>	<u>111,734</u>	<u>(854)</u>
Charges to appropriations (outflows):				
Streets and roads	<u>83,000</u>	<u>83,000</u>	<u>-</u>	<u>83,000</u>
Total charges to appropriations	<u>83,000</u>	<u>83,000</u>	<u>-</u>	<u>83,000</u>
Budgetary fund balance, June 30	<u><u>\$ 29,588</u></u>	<u><u>\$ 29,588</u></u>	<u><u>\$ 111,734</u></u>	<u><u>\$ 82,146</u></u>

See accompanying notes to financial statements.

**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - DESCRIPTION OF ORGANIZATION**

The City of Audubon Park, Kentucky (the City) is a fifth class city and operates under the Kentucky Revised Statutes, as amended. The City operates under the Mayor-Council form of government and provides the following services as authorized by its charter: municipal services, including care and maintenance of streets, police protection, garbage collection, and administrative services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Implementation of New Accounting Standards**

For the fiscal year ended June 30, 2014, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The effect of the implementation was to reclassify the liability, deferred revenue, as a Deferred Inflows of Resources – Property tax revenue applicable to future years and sanitation fee revenue applicable to future years, on both the government wide and governmental funds financial statements.

**Government-Wide Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity has been removed from these statements.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental type activities are those financed through property taxes, intergovernmental revenues, municipal aid, and other non-exchange revenues and are usually reported in governmental and internal service funds. The City has no business-type activities.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and (2) grants and contributions, including special assessments, that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Reporting on governmental-type activities is based on FASB Statements and Interpretations issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

**Fund Financial Statements**

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

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 Funds (Road Aid and Sanitation) are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted or committed to expenditures for specified purposes. Municipal road aid and sanitation revenue and expenditures are accounted for within these funds.

**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned or, for property tax revenues, in the period for which levied, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and therefor available and recognized as revenue. The City considers all revenue reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

**Budgetary Accounting**

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City including any authorized revisions

**Management's Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

**Property Taxes and Other Receivables**

Property taxes and other receivables are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.



**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets**

Capital assets are reported in the governmental activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Buildings and Improvements	15 – 40 Years
Vehicles	5 Years
Equipment	3 – 10 Years

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

Public safety	\$ 33,110
General government	6,273
Public works	<u>1,858</u>
	<u>\$ 41,241</u>

**Net Position/Fund Balances**

In the statement of net position, the difference between the City's assets and liabilities is recorded as net position. The three components of net position are as follows:

**Invested in Capital Assets, Net of Depreciation** – This category records capital assets net of accumulated depreciation.

**Restricted Net Position** – Net position that is restricted by external sources or by law are reported separately as restricted net position. When assets are required to be retained in perpetuity, the non-expendable net position is recorded separately from expendable net position. These are components of restricted net position. The City has restricted net position related to municipal road aid monies received from the State of Kentucky.

**Unrestricted Net Position** – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of depreciation."

**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the balance sheet of governmental funds, fund balances are segregated as follows:

**Nonspendable** – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of the other governments.

**Committed** – amounts that can be used only for specific purposes determined by a formal action of the City Council. The Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

**Assigned** – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Council adopted policy, only the City Council may assign amounts for specific purposes.

**Unassigned** – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment functions.

**Subsequent Events**

The City has evaluated subsequent events through December 15, 2014, the date the financial statements were available to be issued.

**NOTE C – DEPOSITS**

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

Cash balances at June 30, 2014 were as follows:

<u>Fund</u>	<u>Financial Institution</u>	<u>Bank Balance</u>	<u>Insured</u>	<u>Collateralized</u>
General	Commonwealth Bank	\$ 14,722		
Road Aid	Commonwealth Bank	93,636		
Sanitation	Commonwealth Bank	5		
		<u>\$108,363</u>	FDIC	
General	American Founders Bank	\$320,861		
Sanitation	American Founders Bank	178,545		
		<u>\$499,406</u>	FDIC	Pledge Agreement

**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE D – CAPITAL ASSETS**

	<b>Year Ending June 30, 2014</b>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Building and improvements	\$ 143,744	\$ -	\$ -	\$ 143,744
Land	37,291	-	-	37,291
Vehicles	397,707	5,500	( 111,919)	291,288
Equipment	194,276	8,654	( 360)	202,570
Office equipment	<u>20,711</u>	<u>890</u>	<u>( 240)</u>	<u>21,361</u>
Total Cost	793,729	15,044	( 112,519)	696,254
Less: accumulated depreciation	( 610,536)	( 41,241)	<u>93,782</u>	( 557,995)
Net Book Value	<u>\$ 183,193</u>	<u>(\$ 26,197)</u>	<u>(\$ 18,737)</u>	<u>\$ 138,259</u>

**NOTE E – OTHER RECEIVABLES**

Other receivables in the government-wide financial statements consist of the following:

Court revenue	\$ 2,549
Police services	2,500
Highway safety grant	2,220
KLEFPF	775
Sanitation fees	11,436
Municipal road aid	<u>3,052</u>
Total	<u>\$ 22,532</u>

**NOTE F – PROPERTY TAXES**

As generally provided in the Constitution of the Commonwealth of Kentucky, the City's property tax is levied each March 31 on the assessed value listed as of the prior January 1 for all real property located in the City. The Jefferson County Property Valuation Administrator establishes assessed values. The tax payments are due and payable when levied. All unpaid taxes become delinquent June 30.

Property tax revenues are recognized in the assessment year. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided. A discount of 1% shall be allowed on tax bills paid prior to May 1, 2013. Bills paid after that date but before June 1, 2013 are not allowed a discount or subject to a penalty. Bills paid after June 1, 2013 but before June 30, 2013 are charged a penalty of 10% plus interest at the rate of 1.5% per month, or part thereof, until paid. All bills paid after June 30, 2013 are charged a penalty of 20% plus interest at the rate of 1.5% per month, or part thereof, until paid. The City has no policy regarding lien dates.

**NOTE G – CAPITALIZED LEASE AGREEMENT**

The City had borrowed money to acquire new police vehicles. The balance of these leases was paid in full during the fiscal year and totaled \$26,821. The City had no lease obligations at June 30, 2014.

**NOTE H – INTERGOVERNMENTAL REVENUE**

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for police incentive training and other miscellaneous operating costs during the year ended June 30, 2014 that are recorded in the General Fund.

**CITY OF AUDUBON PARK, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE I – POLICE SERVICES**

The City has entered into several agreements wherein the City's police force provides policing services for other communities in the area for an agreed-upon fee.

**NOTE J – LINE OF CREDIT**

The City has a \$100,000 line of credit with a bank. Interest at 3.25% accrues on the outstanding balance. The line is secured by a mortgage on real property. All outstanding principal plus all accrued interest is due on April 21, 2015.

**NOTE K – COMPENSATED ABSENCES**

At June 30, 2014, the City had accumulated unpaid vacation and sick pay totaling \$4,627, which is not accrued.

**NOTE L – INDUSTRIAL REVENUE BOND ISSUES**

The City has issued a revenue bond as of June 30, 2014. The bond is not a debt to the City and the City has no obligation to repay principal and interest. The City receives an annual fee as consideration for issuing the bonds. Fees received during the current fiscal year totaled \$2,000.

**NOTE M – NET POSITION, BEGINNING OF YEAR**

At June 30, 2013, the City reported a Post Employment Retirement Benefits liability of \$558,243. Net position at the beginning of the current fiscal year has been adjusted to eliminate this liability. The City is currently in litigation regarding this matter.

**NOTE N – CONTINGENCIES AND LITIGATION**

The City is subject to various legal proceedings, claims, and litigation arising in the ordinary course of operating. The City defends itself vigorously against any such claims. Although the City believes it has substantial defenses in these matters, it could incur judgments or enter into settlements of claims that could have a material adverse effect on results of operations in any particular period.

**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor and City Councilmembers  
City of Audubon Park, Kentucky

We have audited, 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, the financial statements of the governmental activities and each major fund of City of Audubon Park, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 opinion 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 internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **City of Audubon Park, Kentucky's Response to Findings**

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Welenken CPAs

Louisville, Kentucky  
December 15, 2014

**CITY OF AUDUBON PARK, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014**

**Findings:**

- 2014-1 Based on the City's limited number of accounting personnel, the City lacks proper segregation of duties within the accounting function.
- 2014-2 The City lacks the expertise to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

**Management's Response to Audit Findings:**

The common element behind the two listed findings lies in the City's continuing struggle to arrive at satisfactory arrangements to sustain and secure its bookkeeping function. In the fiscal year addressed in this report, and ensuing months, successive administrations have employed

- a paid part-time nonresident treasurer and bookkeeper performing the function in-house using dedicated automation and *Quickbooks* software;
- a professional accounting firm performing the function off-site on contract using *Peachtree* software;
- a volunteer part-time resident working irregular hours in-house using previous dedicated automation and restoring *Quickbooks* files; and
- a consultant accounting firm working *ad hoc* to implement policy changes and produce short-term reporting, off-site, with amended *Quickbooks* files and programming.

Beyond just the turbulence entailed, each of these arrangements has had serious drawbacks a more stable long-term practice will have to overcome. These include, in the various cases, factors like accountability and responsiveness; security and transportability of data; cost; and expertise needed/available. These factors generally point to the preferability of an in-house function, conducted on site with segregated hardware and software, fully secured both physically and procedurally.

Certified professional accounting support seems excessive, given the costs involved, along with customary disclaimers attached to products that leave gaps in accountability. Conversely, even professional firms seldom have the requisite expertise in government accounting standards and principles to meet the City's needs.

These challenges have led me to renew the City's intensive search for a private part-time bookkeeper, either proficient in or able quickly to absorb the peculiarities of government operations and requirements, and to perform the dedicated function in-house, under the general supervision of the City Clerk/Treasurer. In that expectation, upgraded hardware and software have been procured to house the financial system and records on a stand-alone, portable platform that can be physically secured in a locked container when not in use.

The Commonwealth's Department of Local Government is designated by statute to provide technical assistance to local governments in financial management, and in initial contacts has also identified the Kentuckiana Regional Planning and Development Agency (KIPDA) as an additional source of support. It's my expectation to exploit fully the expertise and assistance of these organizations to insure that our bookkeeper, once identified and selected, has avail of the necessary particulars of government operations to insure the City's needs are fully met.