

CITY OF LANGDON PLACE
REPORT ON AUDIT
OF FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

CITY OF LANGDON PLACE
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Langdon Place, Kentucky

I have audited the accompanying financial statements of the governmental activities and each major fund of the City of Langdon Place, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Langdon Place, Kentucky's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my 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 Langdon Place, Kentucky, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated January 16, 2013, on my consideration of the City of Langdon Place, Kentucky's internal control over financial reporting and my 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 my 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 and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 13 through 14 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 historic context. I have applied certain limited procedures to the required

INDEPENDENT AUDITOR'S REPORT (Continued)

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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

Thomas R. Clark, CPA

Thomas R. Clark, PSC
Louisville, Kentucky

January 16, 2013

CITY OF LANGDON PLACE
 GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
 JUNE 30, 2012

	<u>GENERAL FUND</u>	<u>KENTUCKY MUNICIPAL AID ROAD FUND</u>	<u>TOTAL</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF NET ASSETS</u>
ASSETS					
CURRENT ASSETS					
Cash	\$163,600	\$287,785	\$451,385		\$451,385
Certificates of deposit	114,627	45,470	160,097		160,097
Property tax receivable	0	0	0	12,914	12,914
Prepaid expenses	<u>11,875</u>	<u>0</u>	<u>11,875</u>		<u>11,875</u>
Total Current Assets	<u><u>290,102</u></u>	<u><u>333,255</u></u>	<u><u>623,357</u></u>	<u>12,914</u>	<u><u>636,271</u></u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$7,220	\$0	\$7,220		\$7,220
Payroll taxes withheld	<u>157</u>	<u>0</u>	<u>157</u>		<u>157</u>
Total Current Liabilities	<u>7,377</u>	<u>0</u>	<u>7,377</u>		<u>7,377</u>
FUND BALANCES/NET ASSETS					
Fund Balances, Reserved for road maintenance		333,255	333,255	(333,255)	0
Fund Balances, Unreserved	<u>282,725</u>	<u>0</u>	<u>282,725</u>	<u>(282,725)</u>	<u>0</u>
Total Fund Balances	<u>282,725</u>	<u>333,255</u>	<u>615,980</u>	<u>(615,980)</u>	<u>0</u>
Total Liabilities and Fund Balances	<u><u>\$290,102</u></u>	<u><u>\$333,255</u></u>	<u><u>\$623,357</u></u>		
Net Assets:					
Restricted for road maintenance				333,255	333,255
Unrestricted				<u>295,639</u>	<u>295,639</u>
Total Net Assets				<u><u>628,894</u></u>	<u><u>628,894</u></u>

CITY OF LANGDON PLACE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES \$615,980

Amounts reported for governmental activities
in the statement of net assets are different because:

Tax receivables in the statement of assets are reported using the full accrual basis whereas the balance sheet - governmental funds reflects the modified accrual basis. This is the difference between the two methods of accounting.

12,914

NET ASSETS

\$628,894

CITY OF LANGDON PLACE
 STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

	GENERAL FUND	KENTUCKY MUNICIPAL AID ROAD FUND	TOTAL	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUES					
Property taxes net of discount	\$169,460		\$169,460		\$165,911
Kentucky municipal aid		\$22,664	22,664	(3,549)	22,664
OTHER REVENUES					
Interest	1,459	550	2,009		2,009
Penalties and interest on taxes	625		625		625
Franchise fees	4,970		4,970		4,970
Insurance premium taxes	60,472		60,472		60,472
Miscellaneous	31		31		31
Total Revenues	<u>237,017</u>	<u>23,214</u>	<u>260,231</u>	<u>-3,549</u>	<u>256,682</u>
EXPENDITURES/EXPENSES					
Accounting audit services	2,800		2,800		2,800
Security services	18,175		18,175		18,175
Street lights	12,518		12,518		12,518
Garbage collection	61,771		61,771		61,771
Snow removal	6,750		6,750		6,750
Beautification and maintenance	62,688		62,688		62,688
Insurance	4,960		4,960		4,960
Legal services	7,500		7,500		7,500
Legal notices	184		184		184
Mayor and commissioners salary	22,500		22,500		22,500
Office expenses	6,268	2	6,270		6,270
Tax billing	3,108		3,108		3,108
Bookkeeping services	12,000		12,000		12,000
Road and sidewalk maintenance	29,688		29,688		29,688
Bad debt expense	13		13		13
Total Expenditures/Expenses	<u>250,923</u>	<u>2</u>	<u>250,925</u>		<u>250,925</u>
Excess (Deficiency) of Revenues over Expenditures/Expenses	(13,906)	23,212	9,306	(9,306)	0
Changes in Net Assets				5,757	5,757
Fund Balances/Net Assets					
Beginning of the year	<u>296,631</u>	<u>310,043</u>	<u>606,674</u>		<u>606,674</u>
End of the year	<u>\$282,725</u>	<u>\$333,255</u>	<u>\$615,980</u>	<u>\$0</u>	<u>\$612,431</u>

See accompanying notes to financial statements.

CITY OF LANGDON PLACE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds	\$9,306
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of change in accounts receivable for the current year.	<u>(3,549)</u>
Net change in net assets as reflected on Statement of Activities	<u><u>\$5,757</u></u>

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Langdon Place, Kentucky (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

FINANCIAL REPORTING ENTITY

The City is a municipal corporation governed by an elected mayor and a six-member City Council. The City provides the following services: streets and public works, sanitation, public safety and general administrative services. The City is a 6th Class City as defined by Kentucky statute.

BASIS OF PRESENTATION

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities reflect financial information of the City as a whole. These statements include the primary government and its component units, if applicable. Government-wide statements distinguish between governmental and business-type activities. Currently, the City does not engage in any business-type activities.

The Statement of Activities presents direct expenses which are clearly identifiable with a specific function or segment. Taxes and other revenue items are reported as general revenues.

FUND FINANCIAL STATEMENTS

The City uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions relating to certain government functions or activities. A fund is a separate entity with a self-balancing set of accounts. Funds of the City are classified as governmental, which account for all or most of the City's general activities including the collection of legally restricted monies, administrative expense and the acquisition or construction of capital assets.

The City reports the following funds of the financial reporting entity: The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund. The Road Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The City accounts for Kentucky municipal aid receipts in this fund. The municipal aid fund is restricted to road construction, repairs, and maintenance.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenses or expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the time of related cash flows. This method differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds. Expenses are classified by function.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

The government-wide Statement of Activities presents a comparison between expenses and program revenues for the activities of the City and for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when they are measurable and available. Measurable means that the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Under the modified accrual basis of accounting, expenditures are recorded when a liability is incurred, as under accrual accounting.

The City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, insurance premium taxes, franchise taxes, licenses and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period.

BUDGETARY ACCOUNTING

The budget information reflected in the financial statements is the annual budget adopted by the City in accordance with the provisions of Kentucky law. It is presented to the Commission in the form of an ordinance and may be amended by subsequent ordinance or by municipal order. The budget is prepared on a basis consistent with the modified accrual basis of accounting utilized in the government fund financial statements.

BUDGETARY COMPARISON SCHEDULES

As required by generally accepted governmental accounting principles, this statement has been prepared in the same form as the legally adopted budget; therefore its form varies somewhat from the statement of revenues, expenditures and changes in fund balances.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of 90 days or less.

Generally, the City's investing activities are managed under the custody of the City Mayor. Investing is performed in accordance with investment policies complying with state statutes and the City Charter. City funds may be invested in: (1) obligations of the United States and its agencies and instrumentalities, (2) obligations of any corporation of the United States government, (3) certificates of deposits in institutions insured by the Federal Deposit Insurance Corporation, (4) bonds or certificates of indebtedness of the Commonwealth of Kentucky, (5) securities issued by a state or local government in the United States, and (6) shares of mutual funds.

ACCOUNTS RECEIVABLE

The management of the City believes that all accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts was recorded.

INSURANCE PREMIUM TAXES

The City's tax rate assessed on insurance premiums is 5%.

CAPITAL ASSETS

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental fund statements and capitalized (recorded and accounted for) in the government-wide statement of net assets.

FUND EQUITY

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation.

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principals requires the City's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and expenditures during the reporting period. Actual results may differ from those estimates.

B. PROPERTY TAX RECEIVABLE

Property taxes are collected and remitted to the City. Taxes are levied annually on January 1. Taxes are due December 31 after which time applicable penalties and interest are assessed. Tax revenue is recognized in the year levied. Currently, the City does not have a policy which sets a date for filing liens on delinquent property taxes.

Property tax receivable by year consists of the following:

<u>YEAR</u>	
6/30/2012	\$5,342
6/30/2011	2,436
6/30/2010	1,414
6/30/2009	1,335
Thereafter	2,387
	\$12,914
	\$12,914

C. INVESTMENTS

The City's investments are in certificates of deposit with federally insured banks. The maturities of these certificates of deposit are as follows:

<u>Maturing</u>	<u>General Fund Market Value</u>	<u>Kentucky Municipal Aid Road Fund Market Value</u>
Within 1 year	\$114,627	\$45,470
After 1 year through 5 years	0	0
	<u>\$114,627</u>	<u>\$45,470</u>

D. CUSTODIAL CREDIT RISK OF BANK DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City has cash deposits in various financial institutions, some of which exceeded the federally insured limit of \$250,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

- Category 1 - Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name
- Category 2 - Collateralized with securities held by the pledging institutions trust department or agent in the City's name
- Category 3 - Uninsured and uncollateralized

At year end, the City had \$611,483 of bank deposits (certificates of deposit, checking, and savings accounts) of which \$246,856 were Category 3 - uninsured and uncollateralized. The City's management believes that the credit risk related to these deposits is minimal.

E. BUDGETARY AND LEGAL COMPLIANCE

The City is required to adopt an annual budget resolution by July 1 each fiscal year for the General Fund and the Special Revenue Fund. The City also approves any revisions that alter the total expenditures of any major object within a fund (legal level of budgetary control).

F. SUBSEQUENT EVENTS

The City has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through January 16, 2013, which was the date the financial statements were approved by management of the City of Langdon Place.

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Thomas R. Clark, CPA
Deborah J. Stumler, 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**

The Honorable Mayor and
Members of the City Council
City of Langdon Place
Jefferson County, Kentucky

I have audited the financial statements of the governmental activities and each major fund of the City of Langdon Place, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City of Langdon Place, Kentucky's basic financial statements and have issued my report thereon dated January 16, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Audit Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Langdon Place, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Langdon Place, Kentucky's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Windy Hills, Kentucky's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. 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.

Provide oversight of the financial reporting process –

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures of the financial position results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles. I noted the absence of appropriate internal controls in the following areas:

- * The City's internal control system lacks certain controls with respect to separation of duties. Lack of separation of duties is not unusual in cities of your size.
- * The City does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such, management requested me to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in cities of your size and is a result of management's cost benefit decision to use my accounting expertise rather than to incur internal resource costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Langdon Place, Kentucky's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, City Council, others within the organization, and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



Thomas R. Clark, PSC
Certified Public Accountant

January 16, 2013

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LANGDON PLACE
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Property taxes net of discount	\$ 164,000	\$ 164,000	\$ 169,460	\$ 5,460
OTHER REVENUES				
Interest	2,000	2,000	1,459	(541)
Penalties and interest on taxes	0	0	625	625
Franchise fees	6,000	6,000	4,970	(1,030)
Insurance premium taxes	40,000	40,000	60,472	20,472
Miscellaneous	75	75	31	(44)
Total Revenues	<u>212,075</u>	<u>212,075</u>	<u>237,017</u>	<u>24,942</u>
EXPENSES				
Accounting audit services	2,600	2,600	2,800	(200)
Security services	18,000	18,000	18,175	(175)
Street lights	12,000	12,000	12,518	(518)
Garbage collection	55,000	55,000	61,771	(6,771)
Snow removal	15,275	15,275	6,750	8,525
Beautification and maintenance	46,000	46,000	62,688	(16,688)
Insurance	5,000	5,000	4,960	40
Legal services	7,500	7,500	7,500	0
Legal notices	1,500	1,500	184	1,316
Mayor and commissioners salary	24,000	24,000	22,500	1,500
Office expenses	10,000	10,000	6,268	3,732
Tax billing	3,200	3,200	3,108	92
Bookkeeping services	12,000	12,000	12,000	0
Road and sidewalk maintenance	0	0	29,688	(29,688)
Bad debt expense	0	0	13	(13)
Total Expenses	<u>212,075</u>	<u>212,075</u>	<u>250,923</u>	<u>(38,848)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$0</u>	<u>\$0</u>	<u>(\$13,906)</u>	<u>(\$13,906)</u>

CITY OF LANGDON PLACE
 BUDGETARY COMPARISON SCHEDULE - ROAD FUND
 YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Kentucky municipal aid	\$18,000	\$18,000	\$22,664	\$4,664
Interest	2,000	2,000	550	(1,450)
Total Revenues	<u>20,000</u>	<u>20,000</u>	<u>23,214</u>	<u>3,214</u>
EXPENSES				
Office expense	0	0	2	(2)
Road and sidewalk maintenance	20,000	20,000	0	20,000
Total Expenses	<u>20,000</u>	<u>20,000</u>	<u>2</u>	<u>19,998</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>\$0</u>	 <u>\$0</u>	 <u>\$23,212</u>	 <u>\$23,212</u>