

January 30, 2023

To the Mayor and City Council of
The City of Cold Spring, Kentucky

We have audited the financial statements of the City of Cold Spring, Kentucky (City) for the year ended June 30, 2022, and have issued our report thereon dated January 30, 2023. Professional standards (AUC 260) require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 14, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of City of Cold Spring, Kentucky. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Cold Spring, Kentucky are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of fixed asset depreciation is based on the depreciation basis as described in the Note A and detailed in Note E to the Financial Statements. We evaluated the key factors and assumptions used to develop the fixed asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Per requirements issued under the Government Accounting Standards Board (GASB) Statement No. 68, the City recognized, on its statement of net position only, its proportionate share of the Kentucky County Employee Retirement System's unfunded pension liability. Adjustments are made annually to the net unfunded pension liability and to related deferred inflows and outflows of resources related to pension costs. Details of this pension adjustment are disclosed in Note G to the Financial Statements and further disclosures, over the last ten years, are made as required supplementary information.

Per requirements issued under the Government Accounting Standards Board (GASB) Statement No. 75, the City recognized, on its statement of net position, its proportionate share of the Kentucky County Employee Retirement System's unfunded other post-employment benefits (OPEB) liability for the health insurance portion of the retirement plan. Adjustments are made annually to the net unfunded OPEB liability and to related deferred inflows and outflows of resources related to OPEB costs. Details of this OPEB adjustment are disclosed in Note G to the Financial Statements and further disclosures, over the last ten years, are made as required supplementary information.

The disclosures in the financial statements are neutral, consistent, and clear. There are no financial statement disclosures that are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered **no** significant difficulties in dealing with management in performing and completing our audit. The City's consulting accountant failed to provide year-end accounting adjustments to the modified cash basis of accounting, to fixed asset sub-ledgers, and to long-term debt sub-ledgers and failed to reconcile due to/due from and transfers between City funds.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We made the following adjustments:

In the funds:

- See AJEs Attached

In the government-wide financial statements:

- Recognized \$4,495,310 of Construction in Progress.
- Recognized \$73,516 in Capital Assets and \$522,235 in depreciation expense.
- Recognized a \$6,500,000 note payable and a principal payment of \$1,896.
- Adjusted compensated absences by \$45,846 to \$148,518.
- Adjusted net pension/OPEB liability to \$4,949,672; deferred inflows to \$987,184 and deferred outflows to \$1,421,906, a net adjustment of \$319,072.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that **no** such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We noted the following compliance findings we were required to report:

- Finding 2022-01 – The City Consultant Accountant failed to prepare industry standard, accurate, and timely monthly bank reconciliations which resulted in misstated cash and revenue totals for the affected periods.
- Finding 2022-02 – Kentucky Revised Statutes (KRS) state that "no moneys shall be expended from any source except as provided in the originally adopted or subsequently amended budget". During the year the City expended \$3,365,070 more than budgeted which is in violation of KRS.

Internal Control Over Financial Reporting

Professional standards (*AUC 265*) require that we provide you with information concerning the City's internal control over financial reporting. This information was provided as part of the City's Annual Financial Report in the "**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**", found on pages 44-46 of the Annual Financial Report.

Management Items

In planning and performing our audit of the financial statements of the City, for the year ended June 30, 2022, we considered internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. We provided a management letter dated January 30, 2023, to address several items.

Governance Letter
City of Cold Spring, Kentucky
January 30, 2023



This letter is solely for the use of the City Council of the City of Cold Spring, Kentucky and should not be used for any other purpose. Please feel free to contact us if we can be of any assistance. Thank you for allowing us to be of service to the City of Cold Spring, Kentucky

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Certified Public Accountants
Erlanger, Kentucky

CITY OF COLD SPRING, KENTUCKY BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - GENERAL FUND For the Year Ended June 30, 2022

	Budgeted Amounts			Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final		
Budgetary fund balance, July 1	\$ 6,696,687	\$ 2,160,130	\$ 8,856,817	\$ 7,421,034	\$ (1,435,783)
Resources (inflows)					
Property taxes	1,005,000	(10,566)	994,434	994,375	(59)
Licenses/permits	318,700	(26,966)	291,734	192,852	(98,882)
Intergovernmental	60,800	56,403	117,203	77,256	(39,947)
Fines and forfeitures	13,300	(12,340)	960	6,223	5,263
Charges for services	403,345	(29,377)	373,968	409,006	35,038
Parks, trees and recreation	2,100	(2,100)	-	-	-
Other	2,233,379	371,974	2,605,353	2,762,502	157,149
Amounts available for appropriation	10,733,311	2,507,158	13,240,469	11,863,248	(1,377,221)
Charges to appropriations (outflows)					
General government	4,806,856	(3,031,005)	1,775,851	3,538,656	(1,762,805)
Police	3,763,159	(1,560,651)	2,202,508	3,900,972	(1,698,464)
Public works	744,045	(23,078)	720,967	625,071	95,896
Enterprises	36,700	(9,000)	27,700	25,267	2,433
Parks, trees and recreation	84,047	(73,947)	10,100	12,230	(2,130)
Total charges to appropriations	9,434,807	(4,697,681)	4,737,126	8,102,196	(3,365,070)
Transfer from (to) other fund	-	(150,208)	(150,208)	-	150,208
Budgetary fund balance, June 30	\$ 1,298,504	\$ 7,054,631	\$ 8,353,135	\$ 3,761,052	\$ (4,592,083)

Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance

Budgetary Fund Balance	\$ 3,761,052
Prior Period Adjustment	(400,172)
Proceeds from note	6,500,000
G.A.A.P Basis General Fund Balance	<u>\$ 9,860,880</u>

CITY OF COLD SPRING, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
MUNICIPAL AID ROAD FUND
For the Year Ended June 30, 2022

	Budgeted Amounts			Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final		
Budgetary fund balance, July 1	\$ 370,499	\$ (50,000)	\$ 320,499	\$ 166,757	\$ (153,742)
Resources (inflows)					
Other income	20	-	20	114	94
Intergovernmental	116,870	1,313	118,183	117,816	(367)
Amounts available for appropriation	<u>487,389</u>	<u>(48,687)</u>	<u>438,702</u>	<u>284,687</u>	<u>(154,015)</u>
Charges to appropriations (outflows)					
Municipal road fund	632,250	(514,381)	117,869	60,820	57,049
Total charges to appropriations	<u>632,250</u>	<u>(514,381)</u>	<u>117,869</u>	<u>60,820</u>	<u>57,049</u>
Transfer from General Fund	<u>-</u>	<u>150,208</u>	<u>150,208</u>	<u>-</u>	<u>(150,208)</u>
Budgetary fund balance, June 30	<u>\$ (144,861)</u>	<u>\$ 615,902</u>	<u>\$ 471,041</u>	<u>\$ 223,867</u>	<u>\$ (247,174)</u>

CITY OF COLD SPRING, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
STORM SEWER FUND
For the Year Ended June 30, 2022

	Budgeted Amounts			Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final		
Budgetary fund balance, July 1	\$ 737,059	\$ 188,065	\$ 925,124	\$ 849,380	\$ (75,744)
Resources (inflows)					
Commercial fees	175,300	-	175,300	175,881	581
Residential fees	73,400	-	73,400	79,286	5,886
Interest	-	-	-	113	113
Amounts available for appropriation	<u>985,759</u>	<u>188,065</u>	<u>1,173,824</u>	<u>1,104,660</u>	<u>(69,164)</u>
Charges to appropriations (outflows)					
Storm sewer expense	<u>257,010</u>	<u>(136,471)</u>	<u>120,539</u>	<u>44,948</u>	<u>75,591</u>
Total charges to appropriations	<u>257,010</u>	<u>(136,471)</u>	<u>120,539</u>	<u>44,948</u>	<u>75,591</u>
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 728,749</u>	<u>\$ 324,536</u>	<u>\$ 1,053,285</u>	<u>\$ 1,059,712</u>	<u>\$ 6,427</u>