



**CITY OF LOUISA**  
**COMMONWEALTH OF KENTUCKY**

**REPORT OF AUDIT**  
**FISCAL YEAR ENDED**  
**JUNE 30, 2010**

*Daniel S. Howard, P.S.C.*  
*Certified Public Accountant*  
*Louisa, Kentucky*

CITY OF LOUISA, KENTUCKY

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and Council  
City of Louisa  
Louisa, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2010, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

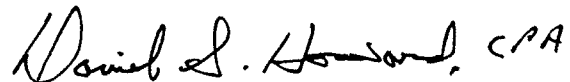
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 07, 2011, on our consideration of City of Louisa, Kentucky's internal control over financial reporting and 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 disclose the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and 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 our audit.

The City of Louisa, Kentucky has not presented, *Management's Discussion and Analysis*, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Louisa, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Louisa, Kentucky. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Daniel L. Howard, CPA

July 07, 2011

	Primary Government			
	Governmental	Business		Component
ASSETS	Activities	Type	Total	Unit
		Activities		
<b>Current assets</b>				
Cash an cash equivalents	\$ 104,165	\$ 3,785	\$ 107,950	\$ 938,706
Property taxes receivable	6,977	0	6,977	0
Grant monies receivable	94,446	0	94,446	0
Insurance tax receivable	96,510	0	96,510	0
Sanitation fees receivable	32,795	0	32,795	0
Other receivables	2,811	0	2,811	0
Customer accounts receivable	0	0	0	261,075
Customer accounts receivable unbilled	0	0	0	138,550
Inventories	0	0	0	55,221
Bond issue costs	0	0	0	24,201
Other assets	48,809	0	48,809	32,672
<b>Total current assets</b>	<u>386,513</u>	<u>3,785</u>	<u>390,298</u>	<u>1,450,425</u>
<b>Noncurrent assets</b>				
Capital assets	4,406,151	185,920	4,592,071	17,916,019
Less: accumulated depreciation	<u>(1,553,450)</u>	<u>(134,053)</u>	<u>(1,687,503)</u>	<u>(5,946,179)</u>
<b>Total noncurrent assets</b>	<u>2,852,701</u>	<u>51,867</u>	<u>2,904,568</u>	<u>11,969,840</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,239,214</u>	<u>\$ 55,652</u>	<u>\$ 3,294,866</u>	<u>\$ 13,420,265</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 428,533	\$ 3,225	\$ 431,758	\$ 211,306
Accrued expenses	32,601	3,077	35,678	45,125
Accrued compensated absences	12,439	0	12,439	16,976
Interest Payable	2,141	0	2,141	43,590
Customer deposits	0	0	0	18,357
Due to City of Louisa-trash fees	0	0	0	65,251
Due Lawrence County-sewer fees	0	0	0	18,483
Rebate Corp of Engineers-current	0	0	0	2,694
Current portion of loan & capital lease payments	93,576	0	93,576	0
Current liabilities payable from restricted assets	0	0	0	296,173
Deferred revenue	0	0	0	0
<b>Total current liabilities</b>	<u>569,290</u>	<u>6,302</u>	<u>575,592</u>	<u>717,955</u>
<b>Noncurrent liabilities</b>				
Bonds, notes, loans and capital lease paymnets	182,229	0	182,229	5,036,313
Loans payable-Construction Fund-to be assumed by W&S	<u>1,232,925</u>	<u>0</u>	<u>1,232,925</u>	<u>0</u>
<b>Total noncurrent liabilities</b>	<u>1,415,154</u>	<u>0</u>	<u>1,415,154</u>	<u>5,036,313</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,984,444</u>	<u>\$ 6,302</u>	<u>\$ 1,990,746</u>	<u>\$ 5,754,268</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,343,971	51,867	1,395,838	6,634,660
Restricted for:				
Debt service	0	0	0	138,154
Capital assets repair and replacement	0	0	0	596,831
Capital projects	(268,267)	0	(268,267)	10
Special revenue	1,886	0	1,886	0
Unrestricted	<u>177,180</u>	<u>(2,517)</u>	<u>174,663</u>	<u>296,342</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,254,770</u>	<u>\$ 49,350</u>	<u>\$ 1,304,120</u>	<u>\$ 7,665,997</u>

See independent auditors' report and accompanying notes to financial statements.

STATEMENT OF ACTIVITIES  
Year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Primary government:					
Governmental activities:					
General government	\$ 245,841	\$ 0	\$ 137,878	\$ 0	\$ (107,963)
Public safety:					
Police	416,905	3,423	19,455	0	(394,027)
Fire	170,540	25,000	8,250	0	(137,290)
Streets	207,775	0	37,575	0	(170,200)
Sanitation	367,814	372,105	0	0	4,291
Community service activities	0	0	0	0	-
Beautification and improvements	76,007	0	108,178	0	32,171
Construction	0	0	0	41,267	41,267
Interest on long term debt	9,442	0	0	0	(9,442)
Total governmental activities	<u>1,494,324</u>	<u>400,528</u>	<u>311,336</u>	<u>41,267</u>	<u>(741,193)</u>
Business type activities:					
Swimming pool	<u>38,338</u>	<u>20,492</u>	<u>0</u>	<u>0</u>	<u>(17,846)</u>
Total business type activities	<u>38,338</u>	<u>20,492</u>	<u>0</u>	<u>0</u>	<u>(17,846)</u>
Total primary government	<u>\$ 1,532,662</u>	<u>\$ 421,020</u>	<u>\$ 311,336</u>	<u>\$ 41,267</u>	<u>\$ (759,039)</u>
Component units:					
Louisa Water & Sewer Commission	<u>\$ 2,171,864</u>	<u>\$ 2,274,236</u>	<u>\$ 0</u>	<u>\$ 92,806</u>	<u>\$ 195,178</u>
Total component units	<u>\$ 2,171,864</u>	<u>\$ 2,274,236</u>	<u>\$ 0</u>	<u>\$ 92,806</u>	<u>\$ 195,178</u>

*Continued*

STATEMENT OF ACTIVITIES-*Continued*  
Year ended June 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense) revenue	\$ (741,193)	\$ (17,846)	\$ (759,039)	\$ 195,178
<b>General revenues:</b>				
Taxes	282,101	0	282,101	0
Licenses & permits	410,597	0	410,597	0
Fines & forfeits	9,307	0	9,307	0
Miscellaneous	38,263	0	38,263	28,508
Interest income	649	0	649	7,389
<b>Transfers</b>	(12,550)	12,550	0	0
<b>Total general revenues &amp; transfers</b>	728,367	12,550	740,917	35,897
<b>Changes in net assets</b>	(12,826)	(5,296)	(18,122)	231,075
Net assets- beginning	1,267,596	54,646	1,322,242	7,547,161
Prior period adjustment	0	0	0	(112,239)
Net assets- ending	\$ 1,254,770	\$ 49,350	\$ 1,304,120	\$ 7,665,997

See independent auditors' report and accompanying notes to financial statements.



**CITY OF LOUISA, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2010

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash	\$ 80,540	\$ 1,886	\$ 21,739	\$ 104,165
Due from other funds	2,670	0	14,613	17,283
Property taxes receivable	6,977	0	0	6,977
Grant monies receivable	33,345	61,101	0	94,446
Insurance tax receivable	96,510	0	0	96,510
Sanitation fees receivable	32,795	0	0	32,795
Other receivable	2,811	0	0	2,811
Prepaid expenses	48,809	0	0	48,809
Inventories, supplies	0	0	0	0
<b>TOTAL ASSETS</b>	<u>\$ 304,457</u>	<u>\$ 62,987</u>	<u>\$ 36,352</u>	<u>\$ 403,796</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 65,483	\$ 58,431	\$ 304,619	\$ 428,533
Accrued expenses	32,601	0	0	32,601
Accrued compensated absences	12,439	0	0	12,439
Due to other funds	14,613	2,670	0	17,283
Deferred revenue	0	0	0	0
<b>TOTAL LIABILITIES</b>	<u>125,136</u>	<u>61,101</u>	<u>304,619</u>	<u>490,856</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	0	0	0	0
Unreserved				
Unreserved reported in:				
General fund	179,321	0	0	179,321
Special revenue funds	0	1,886	0	1,886
Construction fund	0	0	(268,267)	(268,267)
<b>TOTAL FUND BALANCES</b>	<u>179,321</u>	<u>1,886</u>	<u>(268,267)</u>	<u>(87,060)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 304,457</u>	<u>\$ 62,987</u>	<u>\$ 36,352</u>	<u>\$ 403,796</u>

See independent auditors' report and accompanying notes to financial statements.

**CITY OF LOUISA, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET ASSETS**  
June 30, 2010

Total fund balance per fund financial statements	\$ (87,060)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	2,852,701
Certain liabilities (such as loans and capital leases payable and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(1,510,871)</u>
Net assets for governmental activities	\$ <u><u>1,254,770</u></u>

See independent auditors' report and accompanying notes to financial statements.

**CITY OF LOUISA, KENTUCKY**

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

Year ended June 30, 2010

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 282,101	\$ 0	\$ 0	\$ 282,101
License and permits	410,597	0	0	410,597
Intergovernmental-state	201,418	106,471	41,267	349,156
Intergovernmental-indirect federal	1,740	0	0	1,740
Intergovernmental- direct federal	0	1,707	0	1,707
Charges for services	400,528	0	0	400,528
Fines and forfeits	9,307	0	0	9,307
Miscellaneous	38,822	0	90	38,912
<b>TOTAL REVENUE</b>	<u>1,344,513</u>	<u>108,178</u>	<u>41,357</u>	<u>1,494,048</u>
<b>EXPENDITURES</b>				
Current:				
General	234,808	0	0	234,808
Police	415,180	0	0	415,180
Fire	174,069	0	0	174,069
Streets	205,989	0	0	205,989
Sanitation	386,192	0	0	386,192
Special revenue	0	76,007	0	76,007
Capital outlay	65,858	34,440	1,555,200	1,655,498
<b>TOTAL EXPENDITURES</b>	<u>1,482,096</u>	<u>110,447</u>	<u>1,555,200</u>	<u>3,147,743</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(137,583)</u>	<u>(2,269)</u>	<u>(1,513,843)</u>	<u>(1,653,695)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases & loans	24,087	0	1,262,925	1,287,012
Bond proceeds	0	0	0	0
Operating transfers in		0	70	70
Operating transfers out	(12,620)	0		(12,620)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>11,467</u>	<u>0</u>	<u>1,262,995</u>	<u>1,274,462</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(126,116)</u>	<u>(2,269)</u>	<u>(250,848)</u>	<u>(379,233)</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	305,437	4,155	(17,419)	292,173
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE (DEFICIT) END OF YEAR</b>	<u>\$ 179,321</u>	<u>\$ 1,886</u>	<u>\$ (268,267)</u>	<u>\$ (87,060)</u>

See independent auditors' report and accompanying notes to financial statements.

**CITY OF LOUISA, KENTUCKY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2010

Net change in total fund balances per fund financial statements	\$ (379,233)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds or is (under) depreciation expense for the year.	1,541,739
Loans and capital lease proceeds are recognized as income in the fund financial statement but are recorded as liabilities in the statement of net assets.	(1,287,012)
Bond and capital lease payments are recognized as expenditures of current Financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	111,618
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>62</u>
Change in net assets of governmental activities	\$ <u><u>(12,826)</u></u>

See independent auditors' report and accompanying notes to financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
GENERAL FUND  
Year ended June 30, 2010**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 287,025	\$ 287,025	\$ 268,215	\$ (18,810)
Delinquent property taxes	8,500	8,500	13,886	5,386
Total taxes	<u>295,525</u>	<u>295,525</u>	<u>282,101</u>	<u>(13,424)</u>
Licenses and permits				
Occupational license	8,100	8,100	7,275	(825)
Insurance premiums	450,000	450,000	373,995	(76,005)
Community center rental	4,200	4,200	4,250	50
Franchise fees	22,000	22,000	23,450	1,450
Telcommunication tax	5,900	5,900	5,877	(23)
Total licenses & permits	<u>490,200</u>	<u>490,200</u>	<u>414,847</u>	<u>(75,353)</u>
Fines and forfeits				
Parking fines	200	200	9,307	9,107
Total fines and forfeits	<u>200</u>	<u>200</u>	<u>9,307</u>	<u>9,107</u>
Intergovernmental revenue				
House bill 413	15,000	15,000	11,251	(3,749)
Municipal road aid	39,000	39,000	37,575	(1,425)
Police incentive pay	21,700	21,700	19,455	(2,245)
Fire state aid	30,000	30,000	8,250	(21,750)
LGEA coal severance	87,000	87,000	82,450	(4,550)
LGEA mineral severance	31,000	31,000	16,276	(14,724)
Other grants	1,000	1,000	27,901	26,901
Total intergovernmental revenue	<u>224,700</u>	<u>224,700</u>	<u>203,158</u>	<u>(21,542)</u>
Charges for services				
Sanitatin fees	363,600	363,600	372,105	8,505
Fire district contract	25,000	25,000	25,000	0
Arrest fees	4,000	4,000	3,423	(577)
Total charges for services	<u>392,600</u>	<u>392,600</u>	<u>400,528</u>	<u>7,928</u>
Miscellaneous				
Interest income	800	800	649	(151)
Donations	1,400	1,400	1,375	(25)
Other miscellaneous income	24,000	24,000	32,548	8,548
Total miscellaneous	<u>26,200</u>	<u>26,200</u>	<u>34,572</u>	<u>8,372</u>
<b>TOTAL REVENUES</b>	<u>1,429,425</u>	<u>1,429,425</u>	<u>1,344,513</u>	<u>(84,912)</u>
<b>EXPENDITURES</b>				
General Government				
Salaries and related payroll taxes	65,028	65,028	69,768	(4,740)
Retirement	9,697	9,697	9,064	633
Life & health insurance	22,553	22,553	29,334	(6,781)
Insurance	21,280	21,280	26,094	(4,814)
Advertising & printing	3,000	3,000	2,632	368
Professional fees	7,000	7,000	13,764	(6,764)
Utilities & communications	13,000	13,000	8,122	4,878
Other contractual services	12,000	12,000	25,055	(13,055)
Community center expense	8,000	8,000	11,697	(3,697)
Materials & supplies	14,000	14,000	12,367	1,633
Other costs	13,001	13,001	26,911	(13,910)
Total General Government	<u>188,559</u>	<u>188,559</u>	<u>234,808</u>	<u>(46,249)</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL-Continued  
 GENERAL FUND  
 Year ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Police				
Salaries and related payroll taxes	233,412	233,412	236,249	(2,837)
Retirement	31,690	31,690	34,633	(2,943)
Life & health insurance	45,302	45,302	45,935	(633)
Insurance	26,422	26,422	21,521	4,901
Advertising & printing	1,000	1,000	0	1,000
Professional fees	1,000	1,000	383	617
Utilities & communications	10,800	10,800	11,577	(777)
Other contractual services	18,500	18,500	9,612	8,888
Materials & supplies	43,000	43,000	30,379	12,621
Other costs	32,600	32,600	24,891	7,709
Capital outlay	0	0	24,361	(24,361)
Total Police	<u>443,726</u>	<u>443,726</u>	<u>439,541</u>	<u>4,185</u>
Fire				
Salaries and related payroll taxes	18,424	18,424	17,785	639
Retirement	2,743	2,743	2,654	89
Life & health insurance	7,530	7,530	0	7,530
Insurance	20,933	20,933	21,011	(78)
Advertising & printing	75	75	0	75
Professional fees	0	0	0	0
Utilities & communications	15,000	15,000	14,017	983
Other contractual services	10,000	10,000	11,138	(1,138)
Materials & supplies	14,000	14,000	18,485	(4,485)
Other costs	83,890	83,890	88,979	(5,089)
Capital outlay	9,900	9,900	39,597	(29,697)
Total Fire	<u>182,495</u>	<u>182,495</u>	<u>213,666</u>	<u>(31,171)</u>
Street				
Salaries and related payroll taxes	94,670	94,670	92,314	2,356
Retirement	14,161	14,161	13,117	1,044
Life & health insurance	30,125	30,125	23,936	6,189
Insurance	11,974	11,974	11,934	40
Advertising & printing	0	0	21	(21)
Professional fees	0	0	0	0
Utilities & communications	35,000	35,000	36,561	(1,561)
Other contractual services	21,000	21,000	9,426	11,574
Materials & supplies	33,390	33,390	11,014	22,376
Other costs	6,600	6,600	7,666	(1,066)
Capital outlay	8,000	8,000	1,900	6,100
Total Street	<u>254,920</u>	<u>254,920</u>	<u>207,889</u>	<u>47,031</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL-*Continued*  
 GENERAL FUND  
 Year ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Sanitation				
Salaries and related payroll taxes	123,690	123,690	131,419	(7,729)
Retirement	18,455	18,455	19,741	(1,286)
Life & health insurance	37,656	37,656	37,029	627
Insurance	20,423	20,423	19,235	1,188
Advertising & printing	0	0	0	0
Professional fees	0	0	0	0
Utilities & communications	2200	2200	1,081	1119
Other contractual services	94000	94000	95,405	-1405
Materials & supplies	41500	41500	49,606	-8106
Other costs	32900	32900	32,676	224
Capital outlay	0	0	0	0
Total Sanitation	<u>370,824</u>	<u>370,824</u>	<u>386,192</u>	<u>(15,368)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,440,524</u>	<u>1,440,524</u>	<u>1,482,096</u>	<u>(41,572)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPEND</b>	<u>(11,099)</u>	<u>(11,099)</u>	<u>(137,583)</u>	<u>(126,484)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases & loans	0	0	24,087	24,087
Operating transfers in	0	0	0	0
Operating transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(12,620)</u>	<u>(2,620)</u>
<b>TOTAL OTHER FINANCING SOURCES (U</b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>11,467</u>	<u>21,467</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(21,099)</u>	<u>(21,099)</u>	<u>(126,116)</u>	<u>(105,017)</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	305,437	305,437	305,437	0
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE (DEFICIT) END OF YEAR</b>	<u>\$ 284,338</u>	<u>\$ 284,338</u>	<u>\$ 179,321</u>	<u>\$ (105,017)</u>

See independent auditors' report and accompanying notes to financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**

**BUDGET AND ACTUAL**

**SPECIAL REVENUE**

Year ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Intergovernmental-state	\$ 122,077	\$ 122,077	\$ 106,471	\$ (15,606)
Grant receipts-direct federal	1,707	1,707	1,707	0
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL REVENUES</b>	<u>123,784</u>	<u>123,784</u>	<u>108,178</u>	<u>(15,606)</u>
<b>EXPENDITURES</b>				
Beautification	123,784	123,784	73,738	50,046
Contributions	0	0	2,269	(2,269)
Fund raisers	0	0	0	0
Capital outlay	<u>0</u>	<u>0</u>	<u>34,440</u>	<u>-34,440</u>
<b>TOTAL EXPENDITURES</b>	<u>123,784</u>	<u>123,784</u>	<u>110,447</u>	<u>13,337</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>(2,269)</u>	<u>(2,269)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OTHER FINANCING (USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS OF REVENUES &amp; OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<u>0</u>	<u>0</u>	<u>(2,269)</u>	<u>(2,269)</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>4,155</u>	<u>4,155</u>	<u>4,155</u>	<u>0</u>
<b>FUND BALANCE END OF YEAR</b>	\$ <u><u>4,155</u></u>	\$ <u><u>4,155</u></u>	\$ <u><u>1,886</u></u>	\$ <u><u>(2,269)</u></u>

See independent auditors' report and accompanying notes to financial statements.



**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2010

	<u>SWIMMING POOL</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 3,785
Inventory	<u>0</u>
<b>TOTAL CURRENT ASSETS</b>	<u>3,785</u>
<b>NONCURRENT ASSETS</b>	
Capital assets	185,920
Less: accumulated depreciation	<u>(134,053)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>51,867</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 55,652</u></u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 3,225
Accrued payroll and related expenses	3,015
Accrued sales tax	<u>62</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u><u>6,302</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	51,867
Unrestricted	<u>(2,517)</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 49,350</u></u>

See independent auditors' report and accompanying notes to financial statements.

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2010

	<u>SWIMMING POOL</u>
<b>OPERATING REVENUES</b>	
Pool receipts	\$ <u>20,492</u>
<b>TOTAL OPERATING REVENUE</b>	<u>20,492</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	16,437
Payroll taxes	1,270
Materials & supplies	2,179
Repairs & maintenance	3,334
Purchases for resale	1,736
Insurance	5,101
Licenses & other taxes	167
Telephone	738
Utilities	3,519
Accounting	500
Bank charges	70
Miscellaneous	0
Office expense	21
Depreciation	<u>3,266</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>38,338</u>
Operating loss	<u>(17,846)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Operating transfers in	12,550
Other income	<u>0</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSES)</b>	<u>12,550</u>
Net income (loss)	(5,296)
<b>TOTAL NET ASSETS BEGINNING</b>	54,646
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>0</u>
<b>TOTAL NET ASSETS ENDING</b>	\$ <u><u>49,350</u></u>

See independent auditors' report and accompanying notes to financial statements.

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year ended June 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from:	
Pool receipts	\$ 20,492
Cash paid to/for:	
Employees	(17,849)
Materials & supplies	(2,640)
Purchases for resale	(1,219)
Other activities	(12,019)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(13,235)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	12,550
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>12,550</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Receipt of interest income	0
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	(685)
<b>BALANCES, BEGINNING OF YEAR</b>	<u>4,470</u>
<b>BALANCES, END OF YEAR</b>	<u>\$ 3,785</u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities	
Operating income	\$ (17,846)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities	
Depreciation	3,266
Other income	0
Interest	0
Change in assets and liabilities	
Receivables	0
Inventory	0
Accounts payable & accrued sales tax	1,487
Accrued payroll & benefits	(142)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (13,235)</u>

See independent auditors' report and accompanying notes to financial statements.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
Year ended June 30, 2010

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

Reporting Entity

The city of Louisa, Kentucky ("City"), operates under a council-mayor form of government. The City receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The council members and mayor are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibility. Based upon the application of these criteria the Louisa Swimming Pool has been included in the government's reporting entity and their financial transactions have been blended with the primary government unit. The Louisa Water and Sewer Commission is also considered a component unit of the primary government reporting entity and its financial transactions are presented using the discrete method of presentation.

The Louisa Water and Sewer Commission's fiscal year end is May 31, 2010, which is different from the City, which is June 30, 2010. The financial position, results of operations, cash flows and other financial information contained in this report as relates to the Louisa Water and Sewer Commission is as of May 31, 2010 and the year then ended.

Separate financial statements for the Louisa Water & Sewer Commission can be obtained by contacting the Water & Sewer Commission at the following address:

- Louisa Water & Sewer Commission  
213 Ricky Skaggs Blvd.  
PO Box 608  
Louisa, Kentucky 41230  
(606) 638-9322

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The City has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for public safety (police and fire), streets, sanitation, and general administrative services. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the City.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

- (B) Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments) that are legally restricted to expenditure for specified purposes
- (C) Capital project funds are used to account for financial resources to be used in the acquisition and construction of major capital facilities.

II. Proprietary Fund Types (Enterprise Fund)

The Louisa Water and Sewer Commission and the Louisa Swimming Pool account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the general public on a continuing basis is financed through user charges.

The City applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the City. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2010, to finance the General Fund operations were \$.234 per \$100 valuation for property, and \$.20 per \$100 valuation for motor vehicles.

The City also levies a insurance premium tax in the amount of 8% on all insurance premiums within City limits.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Capitalization Policy for the City is as follows:

- Land, land improvement, right of ways (easements) and buildings are capitalized regardless of cost.
- Infrastructure, works of art and historical treasures and intangible assets are capitalized if valued at \$50,000 and above. Infrastructure acquired prior to July 1, 2003 has not been accounted for as allowed by GASB No. 34.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Capital Assets-Continued

- Equipment is capitalized if valued at \$1,000 and above.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Other	7-10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Sick pay does not vest with employees. If they don't use it, they lose it.

The estimated current portion of the liability for vested vacation benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. The entire estimated liability is estimated to be current. The amounts attributable to proprietary funds and similar component units are charged to expense and a corresponding liability in the applicable fund or component unit. The estimated liabilities include required salary-related payments.



**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Budgetary Process

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended.

Each budget is prepared and controlled by the City Clerk at the revenue and expenditure level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Purchases of material and supplies, by governmental fund types, are recorded as expenditures when the liability is incurred. Inventories of these materials and supplies are not maintained and recorded as an assets since the amounts are immaterial.

Proprietary fund types maintain inventories, which are stated at cost. Cost is determined on the first-in, first-out (FIFO) basis. The Louisa Swimming Pool did not maintain inventory records since the amounts are immaterial.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated vacation days, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Fund Balance Reserves

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the sanitation fund and the Louisa swimming pool.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the City's total cash and cash equivalents was \$107,950. Cash was secured by \$250,000 of Federal Depository Insurance, with an additional \$600,000 covered by collateral agreements and collateral held by the pledging banks' trust departments in the City's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

	Bank Balance		Book Balance
Peoples Security Bank	\$ <u>123,529</u>	\$	<u>107,084</u>
Cash on hand			866
Total		\$	<u><u>107,950</u></u>
Breakdown per financial statements:			
Governmental funds		\$	104,165
Proprietary funds			<u>3,785</u>
Total		\$	<u><u>107,950</u></u>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE D - CAPITAL  
ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Land	\$ 386,521	\$ 0	\$ 0	\$ 386,521
Buildings and improvements	826,194	10,493	0	836,687
Vehicles	1,223,771	61,261	0	1,285,032
Equipment	314,167	39,037	0	353,204
Totals for City	2,750,653	110,791	0	2,861,444
Construction in progress-W & S	0	1,544,707	0	1,544,707
Totals at historical cost	2,750,653	1,655,498	0	4,406,151
Less: accumulated depreciation				
Buildings and improvements	255,073	23,881	0	278,954
Vehicles	1,007,677	67,453	0	1,075,130
General equipment	176,940	22,426	0	199,366
Total accumulated depreciation	1,439,690	113,760	0	1,553,450
Governmental Activities Capital Assets - Net	\$ <u>1,310,963</u>	\$ <u>1,541,738</u>	\$ <u>0</u>	\$ <u>2,852,701</u>
<u>Business-Type Activities</u>				
Swimming pool land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Swimming pool buildings	41,151	0	0	41,151
Swimming pool equipment	119,769	0	0	119,769
Totals at historical cost	185,920	0	0	185,920
Less: accumulated depreciation				
Swimming pool buildings	32,848	1,305	0	34,153
Swimming pool equipment	97,939	1,961	0	99,900
Total accumulated depreciation	130,787	3,266	0	134,053
Business-Type Activities Capital Assets - Net	\$ <u>55,133</u>	\$ <u>(3,266)</u>	\$ <u>0</u>	\$ <u>51,867</u>

In the "Statement of Activities" current depreciation has been allocated to the following

Governmental Activities:

General Government	\$ 11,033
Police	16,986
Fire	67,200
Streets	5,529
Sanitation	13,012
<u>TOTAL</u>	\$ <u>113,760</u>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE E - CHANGES IN LONG-TERM DEBT**

The following is a summary of the long-term debt transactions of the City for the year ended June 30, 2010:

Long-term debt July 1, 2009	\$ 333,336
Additional borrowings	54,087
Debt retired	( 111,618)
Long-term debt JUNE 30, 2010	<u>\$ 275,805</u>

Long-term debt at June 30, 2010 is comprised of the following:

Capital lease for fire station No. 2 with the Peoples Exchange Bank, dated January 15, 1998 and maturing January 15, 2013, bearing interest at the rate of 5.70% and requiring semiannual payments in the amount \$10,257.	54,844
Capital lease for 2001 Seagrave tanker fire truck with Kentucky League of Cities dated April 4, 2002 and maturing 04/15/12, variable rate lease currently @ 4.02% and requiring quarterly payments in the approximate amount of \$ 7,600. General Obligation pledge by the City.	80,000
Capital lease for 2006 Sterling garbage truck with Kentucky League of Cities dated September 29, 2005 and maturing November 1, 2010, bearing interest @ 3.658% annually and requiring monthly payments of \$2,349.	11,573
Capital lease for City garage lot with the Kentucky League of Cities dated May 3, 2008 and maturing June 1, 2022, with a variable rate of interest currently @.412% annually and requiring monthly payments of \$592..	84,655
Capital lease for a 2009 Ford police cruiser with Leasing One Corporation. Dated March 12, 2009 and maturing on March 12, 2011 with an interest rate of 2.02% annually and requiring annual payments of \$6,899.	6,762
Capital lease for a 2010 Ford police cruiser with Leasing One Corporation. Dated January 29, 2010 and maturing on January 28, 2012 with an interest rate of 2.0585% annually and requiring annual payments of \$8,362.	16,221
Loan from the State Fire Commission for purchase of a fire training facility dated September 25, 2009 and maturing on November 16, 2016 with an interest rate of 3.00% and requiring annual payments of \$4,841. Payments are to be withheld from Fire State Aid payments.	<u>21,750</u>
<b><u>TOTAL DEBT</u></b>	<b><u>\$ 275,805</u></b>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE E- CHANGES IN LONG-TERM DEBT-CONTINUED**

The following is a schedule by years of future debt service requirements.

YEAR ENDING June-30	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2011	\$ 93,576.00	\$ 8,572.78	\$ 102,148.78
2012	76,791.97	5,289.58	82,081.55
2013	29,075.30	3,089.37	32,164.67
2014	10,807.47	2,041.12	12,848.59
2015	10,742.30	1,829.55	12,571.85
2016	6,812.09	1,626.40	8,438.49
2017	7,132.02	1,544.64	8,676.66
2018	7,456.40	1,460.40	8,916.80
2019	7,799.11	1,371.78	9,170.89
2020	8,155.71	1,279.66	9,435.37
2021	8,532.97	1,182.56	9,715.53
2022	8,923.74	1,081.46	10,005.20
<b>TOTALS</b>	<b>\$ 275,805.08</b>	<b>\$ 30,369.30</b>	<b>\$ 306,174.38</b>

**NOTE F-- COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2010 as follows:

- The City entered into an agreement on July 1, 1998 with the Commonwealth of Kentucky to lease the former state garage located on route 2565 containing approximately 1.15 acres. The lease is for a one-year period only and is renewable on an annual basis not to exceed fourteen years. The yearly rate of rental is \$5,133.33. The City has the right to purchase the property at any time during the term of the lease for the appraised value of \$77,000 with all previous payments being applied to the purchase of the property.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE G – RETIREMENT PLANS**

The City has elected to participate in the County Employee's Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost sharing, multiple-employer defined benefit plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits.

Benefit contributions and provisions are established by statute. Funding for the plan is provided through payroll withholding of 5% with an additional 1% for health insurance for employees who began participating on 09/01/08 or after and a city contribution of 16.16% of the employees' total compensation subject to contribution. The City contributed the amount of \$78,653 during the year ended June 30, 2010 equal to 16.16% of the retirement wages. Contributions by employees for the year ended June 30, 2010 was withholding of \$25,817. The City payroll for the year ended June 30, 2010 was \$502,434.

Benefits fully vest on reaching five years of service. Benefits will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report can be obtained by contacting the Kentucky retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, Phone: (502) 564-4646.

**NOTE H – COMMITMENTS**

The City has several construction projects either in progress or in the planning stage.

The City has a sewer construction project in process for the Cynthia Chapel area. The estimated cost of this project is approximately \$1,100,000 with funding to be provided by state grants. This is a joint project with the County. The County is to receive a \$600,000 grant and the City a \$500,000 grant. This project is being administrated thru the Louisa Water and Sewer Commission (a component unit) and recorded in their books and records

The City has also entered in an Agreed Order with the Kentucky Division of Water concerning certain improvements in the sewer plant and the sewer system. These improvements will probably cost around one million dollars. The funding for this project is a KIA Fund B loan at 1.07% over a 20-year period.

Another project is the Meadowbrook/Berg Sewer Rehab project. Funding thru KIA Fund A – ARRA: \$1,139,646 with 52.1% principle forgiveness-net loan \$545,890 for 20 years at 1%

The City has also entered into an agreement with the Transportation Cabinet to relocate the utility infrastructure along the Louisa – Sandy Hook Road (KY32), which is under reconstruction by the Transportation Cabinet. The estimated cost of this utility relocation project is \$1,629,563 with funding being provided by the Transportation Cabinet.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE I - CONTINGENCIES**

The City receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE J - LITIGATION**

Legal counsel for the City has stated there is one major pending item of litigation.

The Sierra Club and the American Canoe Association have filed a law suite against the City of Louisa for violations of State regulations relating to the backwash water from the Louisa Water Plant. The City was fined \$30,000 in this case for violations of the Clean Water Act. This amount was accrued as a liability of the Louisa Water and Sewer Commission and recorded as an expense in their fiscal year ended 05/31/09. The Plaintiffs were awarded \$418,720 in attorney fees and \$62,166 in expenses. The case has been appealed to the United States Court of Appeals for the Sixth Circuit. No accrual has been recorded for the attorney fees and expenses pending the outcome of the appeals.

**NOTE K - INSURANCE AND RELATED ACTIVITIES**

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which are retrospectively rated which include Workers' Compensation insurance.

**NOTE L - RELATED PARTY TRANSACTIONS**

In accordance with the criteria established by the Governmental Accounting Standards Board for defining a reporting entity, the Louisa Water and Sewer Commission is considered a component unit of the City of Louisa.

The Louisa Water and Sewer Commission Administers the billing and collection of sanitation fees for the City of Louisa. The sanitation fee is included on a combined customer statement along with charges for water and sewer fees. The outstanding sanitation fees are included in Customer Accounts Receivable and the amounts due to the City of Louisa are listed as a current liability under Due to City of Louisa. None of these transactions are included in the Louisa Water and Sewer Commissions "Statement of Operations."

The amounts of these transactions for the year 2010 are as follows:

Sanitation fees billed	\$362,485
Sanitation fees collected by the Commission	361,739
Outstanding fees included in customer accounts receivable	32,795
Due to the City of Louisa for collected and uncollected sanitation fees	32,795



**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2010

**NOTE M - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency).

**NOTE N – DEFICIT OPERATING BALANCES**

The Construction Fund has a deficit fund balance of \$268,267. This amount has been offset in the fiscal year ending 06/30/2011 with loans and grants.

The Louisa Swimming Pool has a deficit fund balance of \$2,517 at 06/30/2010.

**NOTE O- TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Swimming Pool	Expenses	\$ 12,550
Construction	General	Construction	Bank Fees	70

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

DUE FROM

DUE TO

SPECIAL REVENUE FUNDS

HOUSE BILL 410- PROJECT 346  
Pride Project  
Subtotal

<u>FUND</u>	<u>AMOUNT</u>
General Fund	\$ 963
General Fund	1,707
	<u>2,670</u>

GENERAL FUND

Construction	
Rt 32 Relocation	<u>14,613</u>

<u>TOTAL</u>	\$ <u><u>17,283</u></u>
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## **SUPPLEMENTARY INFORMATION**

**CITY OF LOUISA, KENTUCKY**  
**COMBINING BALANCE SHEET-SPECIAL REVENUE FUNDS**  
June 30, 2010

ASSETS	COATS FOR KIDS FUND		STATE GRANTS		FEDERAL AWARDS		TOTAL SPECIAL REVENUE FUNDS	
			HOUSE BILL 410 PROJECT 347	HOUSE BILL 410 PROJECT 346	PRIDE GRANT			
Cash	\$	1,886	\$	0	\$	0	\$	1,886
Grant monies receivable		0		0		59,394		61,101
Due from City of Louisa		0		0		0		0
TOTAL ASSETS	\$	1,886	\$	0	\$	59,394	\$	62,987
LIABILITIES & FUND BALANCES								
LIABILITIES								
Accounts payable-other	\$	0	\$	0	\$	58,431	\$	58,431
Due to City of Louisa		0		0		963		2,670
Deferred revenue		0		0		0		0
TOTAL LIABILITIES		0		0		59,394		61,101
FUND BALANCES								
Reserved for:								
Encumbrances		0		0		0		0
Unreserved								
Fund Balance		1,886		0		0		1,886
TOTAL FUND BALANCES		1,886		0				1,886
TOTAL LIABILITIES & FUND BALANCES	\$	1,886	\$	0	\$	0	\$	62,987

**CITY OF LOUISA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**SPECIAL REVENUE FUNDS**  
June 30, 2010

	COATS FOR KIDS FUND	STATE GRANTS		FEDERAL AWARDS		TOTAL SPECIAL REVENUE FUNDS
		HOUSE BILL 410 PROJECT 347	HOUSE BILL 410 PROJECT 346	PRIDE GRANT		
<b>REVENUES</b>						
Grant receipts-Direct Federal	\$ 0	\$ 0	\$ 0	1,707	\$ 1,707	
Grant receipts-Indirect Federal	0	0	0	0	0	
State Grants	0	47,077	59,394	0	106,471	
Contributions and other receipts	0	0	0	0	0	
<b>TOTAL REVENUE</b>	<u>0</u>	<u>47,077</u>	<u>59,394</u>	<u>1,707</u>	<u>108,178</u>	
<b>EXPENDITURES</b>						
Renovation	0	0	0	0	0	
Fire department equipment	0	0	0	0	0	
Contributions	2,269	0	0	0	2,269	
Fund raisers	0	0	0	0	0	
Beautification & Improvements	0	47,077	24,954	1,707	73,738	
Bank charges	0	0	0	0	0	
Capital outlay	0	0	34,440	0	34,440	
<b>TOTAL EXPENDITURES</b>	<u>2,269</u>	<u>47,077</u>	<u>59,394</u>	<u>1,707</u>	<u>110,447</u>	
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,269)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,269)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (out)	0	0	0	0	0	
<b>TOTAL OTHER FINANCING (USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
<b>EXCESS OF REVENUES &amp; OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<u>(2,269)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,269)</u>	
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>4,155</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,155</u>	
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 1,886</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,886</u>	

**CITY OF LOUISA, KENTUCKY**  
**COMBINING BALANCE SHEET-CONSTRUCTION FUNDS**  
June 30, 2010

ASSETS	MEADOWBROOK/BERG SUBDIVISION SEWER REHAB	AGREED ORDER WASTE WATER TREATMENT PLANT	WATER-LINE RELOCATION PROJECT ROUTE 32	FIRE DEPARTMENT TRAINING CENTER	TOTAL CONSTRUCTION FUNDS
Cash	\$ 19,581	\$ (20)	\$ 0	\$ 2,178	\$ 21,739
Grant monies receivable	0	0	0	0	0
Due from General Fund	0	0	14,613	0	14,613
<b>TOTAL ASSETS</b>	<b>\$ 19,581</b>	<b>\$ (20)</b>	<b>\$ 14,613</b>	<b>\$ 2,178</b>	<b>\$ 36,352</b>
<b>LIABILITIES &amp; FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 118,439	\$ 171,567	\$ 14,613	\$ 0	\$ 304,619
Deferred revenue	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>118,439.17</b>	<b>171,567</b>	<b>14,613</b>	<b>0</b>	<b>304,619</b>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	0	0	0	0	0
Unreserved					
Fund Balance	(98,858)	(171,587)	0	2,178	(268,267)
<b>TOTAL FUND BALANCES</b>	<b>(98,858)</b>	<b>(171,587)</b>	<b>0</b>	<b>2,178</b>	<b>(268,267)</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 19,581</b>	<b>\$ (20)</b>	<b>\$ 14,613</b>	<b>\$ 2,178</b>	<b>\$ 36,352</b>

**CITY OF LOUISA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**CONSTRUCTION FUNDS**  
Year ended June 30, 2010

	MEADOWBROOK/BERG SUBDIVISION SEWER REHAB	AGREED ORDER WASTE WATER TREATMENT PLANT	WATER-LINE RELOCATION PROJECT ROUTE 32	FIRE DEPARTMENT TRAINING CENTER	TOTAL CONSTRUCTION FUNDS
<b>REVENUES</b>					
Grant receipts-Direct Federal	\$ 0	\$ 0	\$ 0	0	\$ 0
Grant receipts-Indirect Federal	0	0	0	0	0
State Grants	0	0	41,267	0	41,267
Interest income	0	0	0	90	90
<b>TOTAL REVENUE</b>	<u>0</u>	<u>0</u>	<u>41,267</u>	<u>90</u>	<u>41,357</u>
<b>EXPENDITURES</b>					
Capital outlay					
<b>TOTAL EXPENDITURES</b>	<u>972,502</u>	<u>530,938</u>	<u>41,267</u>	<u>10,493</u>	<u>1,555,200</u>
	<u>972,502</u>	<u>530,938</u>	<u>41,267</u>	<u>10,493</u>	<u>1,555,200</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(972,502)</u>	<u>(530,938)</u>	<u>0</u>	<u>(10,403)</u>	<u>(1,513,843)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds					
Transfers in (out)	873,644	359,281	0	30,000	1,262,925
	0	70	0	0	70
<b>TOTAL OTHER FINANCING (USES)</b>	<u>873,644</u>	<u>359,351</u>	<u>0</u>	<u>30,000</u>	<u>1,262,995</u>
	<u>873,644</u>	<u>359,351</u>	<u>0</u>	<u>30,000</u>	<u>1,262,995</u>
<b>EXCESS OF REVENUES &amp; OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<u>(98,858)</u>	<u>(171,587)</u>	<u>0</u>	<u>19,597</u>	<u>(250,848)</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>					
	0	0	0	(17,419)	(17,419)
<b>PRIOR PERIOD ADJUSTMENT</b>					
	0	0	0	0	0
<b>FUND BALANCE END OF YEAR</b>	<u>(98,858)</u>	<u>(171,587)</u>	<u>0</u>	<u>2,178</u>	<u>(268,267)</u>
	<u>(98,858)</u>	<u>(171,587)</u>	<u>0</u>	<u>2,178</u>	<u>(268,267)</u>

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2010

Federal Grantor/ Pass-through Grantor/ Program title	Federal CFDA Number	Pass-thru Grantor's Number	Federal Expenditures
Direct Programs:			
U S Department of Commerce PRIDE GRANT	11.469	SC10-47	<u>1,707</u>
TOTAL U S DEPARTMENT OF COMMERCE			<u>1,707</u>
Indirect Programs			
Enviromental Protection Agency Office of Water Passed through Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds ARRA	66.458	A209-10	<u>972,502</u>
TOTAL ENVIROMENTAL PROTECTION AGENCY			<u>972,502</u>
Department of Transportation Passed thru Kentucky Office of Highway Safety State and Community Highway Safety	20.600	CP-09-31	861
State and Community Highway Safety	20.600	K4CP-10-35	<u>879</u>
TOTAL DEPARTMENT OF HIGHWAY SAFETY			<u>1,740</u>
Total Pass Through Programs			<u>974,242</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 975,949</u>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended JUNE 30, 2010

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Louisa, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



*Certified Public Accountant*

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Louisa, Kentucky 41230  
Phone (606) 638-4470

**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 Council  
City of Louisa  
Louisa, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2010, and have issued our report thereon dated July 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Louisa, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Louisa, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Louisa, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identify certain deficiencies, described in the accompanying schedule of findings and questioned costs as items 10-01, 10-02, and 10-03, that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 10-01, 10-02, and 10-03 to be material weaknesses.

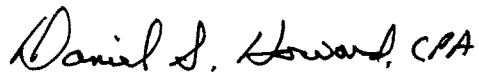
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Louisa Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 10-04, 10-05, and 10-06.

We also noted certain additional matters that we reported to the management of the City of Louisa in a separate letter dated July 07, 2011.

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

This report is intended solely for the information and use of management, others within the organization, the City Council, the appropriate regulatory agencies, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Daniel S. Howard, CPA

July 07, 2011

***Daniel S. Howard, P.S.C.***

***Certified Public Accountant***

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Louisa, Kentucky 41230  
Phone (606) 638-4470

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Council  
City of Louisa  
Louisa, Kentucky

**Compliance**

We have audited the City of Louisa, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Louisa, Kentucky's major federal programs for the year ended June 30, 2010. City of Louisa, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Louisa, Kentucky's management. Our responsibility is to express an opinion on the City of Louisa, Kentucky's compliance based on our audit.

We conducted our audit of compliance 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 and the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Louisa, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Louisa, Kentucky's compliance with those requirements.

In our opinion, the City of Louisa, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

**Internal Control Over Compliance**

Management of the City of Louisa, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Louisa, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as identified above.

This report is intended solely for the information and use of management, others within the organization, the City Council, the appropriate regulatory agencies, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

*Daniel S. Howard, CPA*

July 07, 2011

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2010

**Section 1: Summary of Auditor's Results**

1. A unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements disclosed material weaknesses in internal control, which are identified as item 10-01, 10-02, and 10-03 and described below.
3. The audit disclosed instances of noncompliance that are material to the basic financial statements. These findings are described below as items 10-04, 10-05 and 10-06.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings, which are required to be reportable under section \_\_\_\_\_.510(a) of OMB Circular A-133.
7. The major program was: Capitalization Grants for Clean Water State Revolving Funds ARRA CFDA number 66.458.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low risk auditee.

**Section 2: Reportable Conditions On Internal Control Over Financial Reporting And On Compliance And Others Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

**Finding 10-01: Control Over the Selection and Application of Accounting Principles (Repeat)**

**Condition:** No one in Clerk's office has the expertise to exercise control over the selection and application of accounting principles that are in conformity with generally accepted accounting principles.

**Criteria:** The City should have the ability to prepare its own financial statements that are in agreement with generally accepted accounting principles.

**Cause of Condition:** The City is a small employer and does not believe the derived benefits received from hiring a person with these credentials would be worth the additional costs.

**Effect of Condition:** Financial statements could be misstated in relation to generally accepted accounting principles.

**Recommendation:** The City should consider alternative ways of accomplishing this objective.

**Management Comment:** The City will take this recommendation under consideration.

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
**Year ended June 30, 2010**

**Finding 10-02: Accounting Errors (Repeat)**

**Condition:** Several audit adjustments had to be made to correct the general ledger.

**Criteria:** The City should have some checks and balances in place to catch these errors.

**Cause of Condition:** This problem is associated with finding number 09-01.

**Effect of Condition:** Financial statements could be misstated in relation to generally accepted accounting principles.

**Recommendation:** The accounting person needs to review all general ledger accounts and reconcile back to known subsidiary records where applicable.

**Management Comment:** The City will take this recommendation under consideration.

**Finding 10-03: Absence of Appropriate Segregation of Duties (Repeat)**

**Condition:** The small size of the City's office staff limits the extent of separation of duties consistent with appropriate internal control objectives.

**Criteria:** Different individuals should be responsible for receipts, bank deposits, bank reconcilements, general ledger entries and other accounting functions.

**Cause of Condition:** Having only two office employees is the cause of this condition.

**Effect of Condition:** The financial statement could be misstated and/or possible misappropriation of assets.

**Recommendation:** Mayor and Council should continue its strong oversight.

**Management Comment:** Management concurs with the findings and will continue strong oversight.

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
**Year ended June 30, 2010**

**Finding 10-04: Requirements of City Ordinance No. 02-02 Not Implemented (Repeat)**

**Condition:** Required sinking fund was not established.

**Criteria:** The ordinance lists mandatory requirements of the lending institution, which must be followed.

**Cause of Condition:** Proper oversight has not been given to establish these sinking funds.

**Effect of Condition:** Lender could demand payment in full of outstanding loan balance.

**Recommendation:** City Ordinance No. 02-02 requires the City to establish a "Sinking Fund". The funds derived from said tax levy or other available taxes shall be placed in the Sinking Fund and together with interest collected on the same, are irrevocably pledged for the payment of all bonds or obligations issued under the General Obligation Statutes, including the lease of the new fire truck. This sinking fund should be established as soon as possible.

**Management Comment:** The lease payments on the fire truck have always been timely made. With limited funds it is difficult to establish this sinking fund however the City will discuss ways to establish this fund.

**Finding 10-05: Requirements of City Ordinance No. 05-01 Not Implemented (Repeat)**

**Condition:** Required sinking fund was not established.

**Criteria:** The ordinance lists mandatory requirements of the lending institution, which must be followed.

**Cause of Condition:** Proper oversight has not been given to establish these sinking funds.

**Effect of Condition:** Lender could demand payment in full of outstanding loan balance.

**Recommendation:** City Ordinance No. 05-01 requires the City to establish a "Sinking Fund". The funds derived from said tax levy or other available taxes shall be placed in the Sinking Fund and together with interest collected on the same, are irrevocably pledged for the payment of all bonds or obligations issued under the General Obligation Statutes, including the lease of the new garbage truck. This sinking fund should be established as soon as possible.

**Management Comment:** The lease payments on the garbage truck have always been timely made. With limited funds it is difficult to establish this sinking fund however the City will discuss ways to establish this fund.

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
**Year ended June 30, 2010**

**Finding 10-06: Bid Requirements Not Followed (Repeat)**

**Condition:** Bid requirements were not followed for individual purchases under \$20,000 when the aggregate of these purchases for the year exceeds \$20,000.

**Criteria:** KRS 424.260 requires a city before making a contract, lease, or other agreement for materials, supplies, equipment, or contractual services other than professional, involving an expenditure of twenty thousand dollars or more to first make a newspaper advertisement for bid. The City did not bid fuel. Individual purchases were under the bid requirement amounts however the aggregate for the year exceeded the bid requirement

**Cause of Condition:** There are a limited number of suppliers and it is difficult to get bidders.

**Effect of Condition:** Expenses could possibly be reduced.

**Recommendation:** Consult with other government agencies to determine how they address this issue.

**Management Comment:** The suppliers who are available were called and quotes were taken. Purchases were made from the suppliers with the lowest quotes.

**Section 3: Audit Findings On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.**

No new findings



# **CITY OF LOUISA**

## **Municipal Building**

**215 North Main Cross**

**Louisa, Kentucky 41230**

**Bus.(606)638-4050**

**Fax (606)638-3414**

### **AUDITEE'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

Prior year audit findings are still being addressed and have not been corrected at this time.

*Daniel S. Howard, P.S.C.*

*Certified Public Accountant*

P.O. Box 809  
2425 Highway 2565  
Louisa, Kentucky 41230  
Phone (606) 638-4470

July 07, 2011

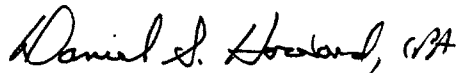
The Honorable Teddy Preston  
Mayor, City of Louisa  
215 North Main Street  
Louisa, Kentucky

In planning and performing our audit of the basic financial statements of the City of Louisa, Kentucky for the year ended June 30, 2010, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We also performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

However, during our audit we became aware of instances that are opportunities for strengthening internal controls and operating efficiency and matters of noncompliance, which were not material to the financial statements. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated July 07, 2011, contains our report on reportable conditions and material weaknesses in the City's internal control structure and on the City's compliance with certain laws, regulations, contracts and grants. This letter does not affect our report dated July 07, 2011, on the financial statements of the City of Louisa, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in cursive script that reads "Daniel S. Howard, P.S.C.".

Daniel S. Howard, P.S.C.  
Certified Public Accountant

CITY OF LOUISA  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2010

**STATUS OF PRIOR YEARS FINDINGS:**

Prior years findings have been addressed and corrective action taken by the City.

**CURRENT YEAR FINDINGS**

**Finding 10-07: Payment of Salaries to City Employees in Accordance With City Ordinance NO. 2009-02**

**Condition:** The deputy clerk was given an hourly raise of fifty-nine cents on August 26, 2009. This raise was not provided for in the City Ordinance.

**Criteria:** Salaries should be paid according to amounts detailed in the City Ordinance.

**Cause of Condition:** Management did not follow proper procedures to amend the City ordinance for any approved pay changes.

**Effect of Deficiency:** Payment of salary in excess of amount allowed by ordinance.

**Recommendation:** Salaries should always be paid in accordance with the City Ordinance and whenever adjustments to salaries are needed, the changes should only be made after the City Ordinance has been amended.

**Management Comment:** The employee had made advancement in her job performance and taken on additional job duties. The lack of an amendment to the City Ordinance was an oversight.

