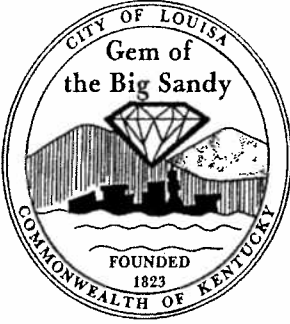


RECEIVED

SEP 04 2012

Kentucky League of Cities

	<p><b>CITY OF LOUISA</b></p> <p><b>COMMONWEALTH OF KENTUCKY</b></p>
	<p><b>REPORT OF AUDIT</b></p> <p><b>FISCAL YEAR ENDED</b> <b>JUNE 30, 2011</b></p>

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

CITY OF LOUISA, KENTUCKY

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2011

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Basic Financial Statements:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets.....	3
Statement of Activities.....	4-5
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds.....	6
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund.....	10-12
Statement of Net Assets – Proprietary Funds.....	13
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	14
Statement of Cash Flows – Proprietary Funds.....	15
<b>Notes to the Basic Financial Statements</b> .....	16-29

CITY OF LOUISA, KENTUCKY

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2011

**Supplementary Information:**

Combining Balance Sheet – Nonmajor Governmental Funds .....	30
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	31
Combining Balance Sheet – Construction Funds.....	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Construction Funds.....	33
<b>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 .....</b>	<b>34-35</b>
<b>Schedule of Findings and Responses .....</b>	<b>36-38</b>
<b>Schedule of Prior Year Audit Findings .....</b>	<b>39</b>
<b>Management Letter Comments.....</b>	<b>40-42</b>

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

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

**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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2011, 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. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of June 30, 2011, 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 August 07, 2012, on our consideration of the 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Daniel S. Howard, CPA*

August 07, 2012

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	
<b>Current assets</b>				
Cash an cash equivalents	\$ 40,117	\$ 1,960	\$ 42,077	\$ 1,008,327
Property taxes receivable	8,144	0	8,144	0
Grant monies receivable	64,227	0	64,227	63,586
Insurance tax receivable	95,846	0	95,846	0
Sanitation fees receivable	34,777	0	34,777	0
Other receivables	467	0	467	0
Customer accounts receivable	0	0	0	257,392
Customer accounts receivable unbilled	0	0	0	152,685
Inventories	0	0	0	54,904
Bond issue costs	0	0	0	50,909
Other assets	35,241	0	35,241	38,182
<b>Total current assets</b>	<u>278,819</u>	<u>1,960</u>	<u>280,779</u>	<u>1,625,985</u>
<b>Noncurrent assets</b>				
Capital assets	3,626,694	185,920	3,812,614	19,701,182
Less: accumulated depreciation	(1,667,830)	(136,565)	(1,804,395)	(6,389,882)
<b>Total noncurrent assets</b>	<u>1,958,864</u>	<u>49,355</u>	<u>2,008,219</u>	<u>13,311,300</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,237,683</u>	<u>\$ 51,315</u>	<u>\$ 2,288,998</u>	<u>\$ 14,937,285</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 111,513	\$ -	\$ 111,513	\$ 251,662
Accrued expenses	22,462	2,167	24,629	48,717
Accrued compensated absences	14,569	0	14,569	21,819
Interest Payable	1,356	0	1,356	36,547
Customer deposits	0	0	0	34,694
Due to City of Louisa-trash fees	0	0	0	37,139
Due Lawrence County-sewer fees	0	0	0	14,198
Rebate Corp of Engineers-current	0	0	0	2,694
Current portion of loan & capital lease payments	79,373	0	79,373	0
Current liabilities payable from restricted assets	0	0	0	340,824
Deffered revenue	0	0	0	0
<b>Total current liabilities</b>	<u>229,273</u>	<u>2,167</u>	<u>231,440</u>	<u>788,294</u>
<b>Noncurrent liabilities</b>				
Bonds, notes, loans and capital lease paymnets	99,293	0	99,293	5,270,483
Loans payable-Construction Fund-to be assumed by W&S	666,978	0	666,978	0
Law suit settlement payable	0	0	0	340,000
<b>Total noncurrent liabilities</b>	<u>766,271</u>	<u>0</u>	<u>766,271</u>	<u>5,610,483</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 995,544</u>	<u>\$ 2,167</u>	<u>\$ 997,711</u>	<u>\$ 6,398,777</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,113,220	49,355	1,162,575	7,697,299
Restricted for:				
Debt service	0	0	0	166,379
Capital assets repair and replacement	0	0	0	646,019
Capital projects	2,184	0	2,184	10
Special revenue	1,886	0	1,886	0
Unrestricted	124,849	(207)	124,642	28,801
<b>TOTAL NET ASSETS</b>	<u>\$ 1,242,139</u>	<u>\$ 49,148</u>	<u>\$ 1,291,287</u>	<u>\$ 8,538,508</u>

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

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants &amp; Contributions</u>	
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 203,003	\$ 0	\$ 102,353	\$ 0	\$ (100,650)
Public safety:					
Police	420,926	3,985	21,748	0	(395,193)
Fire	152,287	25,000	8,250	0	(119,037)
Streets	213,451	0	42,439	0	(171,012)
Sanitation	344,388	359,212	0	0	14,824
Community service activities	0	0	0	0	-
Beautification and improvements	15,385	0	15,385	0	0
Construction	0	0	0	45,207	45,207
Interest on long term debt	7,738	0	0	0	(7,738)
Total governmental activities	<u>1,357,178</u>	<u>388,197</u>	<u>190,175</u>	<u>45,207</u>	<u>(733,599)</u>
Business type activities:					
Swimming pool	24,821	12,763	0	0	(12,058)
Total business type activities	<u>24,821</u>	<u>12,763</u>	<u>0</u>	<u>0</u>	<u>(12,058)</u>
Total primary government	<u>\$ 1,381,999</u>	<u>\$ 400,960</u>	<u>\$ 190,175</u>	<u>\$ 45,207</u>	<u>\$ (745,657)</u>
<b>Component units:</b>					
Louisa Water & Sewer Commission	\$ 2,654,918	\$ 2,350,207	\$ 0	\$ 1,149,230	\$ 844,519
Total component units	<u>\$ 2,654,918</u>	<u>\$ 2,350,207</u>	<u>\$ 0</u>	<u>\$ 1,149,230</u>	<u>\$ 844,519</u>

*Continued*

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF ACTIVITIES-Continued**  
Year ended June 30, 2011

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-tupe Activities</u>	<u>Total</u>	
<b>Changes in net assets:</b>				
<b>Net (expense) revenue</b>	\$ (733,599)	\$ (12,058)	\$ (745,657)	\$ 844,519
<b>General revenues:</b>				
Taxes	286,906	0	286,906	0
Licenses & permits	396,903	0	396,903	0
Fines & forfeits	138	0	138	0
Miscellaneous	48,676	0	48,676	21,619
Interest income	201	0	201	6,373
<b>Transfers</b>	<u>(11,856)</u>	<u>11,856</u>	<u>0</u>	<u>0</u>
<b>Total general revenues &amp; transfers</b>	<u>720,968</u>	<u>11,856</u>	<u>732,824</u>	<u>27,992</u>
<b>Changes in net assets</b>	(12,631)	(202)	(12,833)	872,511
Net assets- beginning	1,254,770	49,350	1,304,120	7,665,997
Prior period adjustment	0	0	0	0
<b>Net assets- ending</b>	<u>\$ 1,242,139</u>	<u>\$ 49,148</u>	<u>\$ 1,291,287</u>	<u>\$ 8,538,508</u>

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



**CITY OF LOUISA, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2011

	GENERAL	CONSTRUCTION	TOTAL NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL
<b>ASSETS</b>	<u>FUND</u>	<u>FUNDS</u>	<u>FUNDS</u>	<u>FUNDS</u>
Cash	\$ 26,047	\$ 12,184	\$ 1,886	\$ 40,117
Due from other funds	1,915	27,205	0	29,120
Property taxes receivable	8,144	0	0	8,144
Grant monies receivable	62,312	0	1,915	64,227
Insurance tax receivable	95,846	0	0	95,846
Sanitation fees receivable	34,777	0	0	34,777
Other receivable	467	0	0	467
Prepaid expenses	35,241	0	0	35,241
Inventories, supplies	0	0	0	0
<b>TOTAL ASSETS</b>	<u>\$ 264,749</u>	<u>\$ 39,389</u>	<u>\$ 3,801</u>	<u>\$ 307,939</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 74,308	\$ 37,205	\$ 0	\$ 111,513
Accrued expenses	22,462	0	0	22,462
Accrued compensated absences	14,569	0	0	14,569
Due to other funds	27,205	0	1,915	29,120
Deferred revenue	0	0	0	0
<b>TOTAL LIABILITIES</b>	<u>138,544</u>	<u>37,205</u>	<u>1,915</u>	<u>177,664</u>
 <b>FUND BALANCES</b>				
Nonspendable	0	0	0	0
Restricted	0	2,184	1,886	4,070
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	126,205	0	0	126,205
<b>TOTAL FUND BALANCES</b>	<u>126,205</u>	<u>2,184</u>	<u>1,886</u>	<u>130,275</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 264,749</u>	<u>\$ 39,389</u>	<u>\$ 3,801</u>	<u>\$ 307,939</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, 2011

Total fund balance per fund financial statements	\$ 130,275
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.	1,958,864
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>(847,000)</u>
Net assets for governmental activities	\$ <u><u>1,242,139</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, 2011

	GENERAL FUND	CONSTRUCTION FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 286,906	\$ 0	\$ 0	\$ 286,906
License and permits	396,903	0	0	396,903
Intergovernmental-state	174,791	45,207	15,385	235,383
Intergovernmental-indirect federal	0	0	0	0
Intergovernmental- direct federal	0	0	0	0
Charges for services	388,197	0	0	388,197
Fines and forfeits	138	0	0	138
Miscellaneous	48,870	6	0	48,876
<b>TOTAL REVENUE</b>	<u>1,295,805</u>	<u>45,213</u>	<u>15,385</u>	<u>1,356,403</u>
<b>EXPENDITURES</b>				
Current:				
General	192,064	0	0	192,064
Police	415,662	0	0	415,662
Fire	160,433	0	0	160,433
Streets	210,098	0	0	210,098
Sanitation	347,080	0	0	347,080
Special revenue	0	0	15,385	15,385
Capital outlay	11,728	348,532	0	360,260
<b>TOTAL EXPENDITURES</b>	<u>1,337,065</u>	<u>348,532</u>	<u>15,385</u>	<u>1,700,982</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(41,260)</u>	<u>(303,319)</u>	<u>0</u>	<u>(344,579)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases & loans	0	573,770	0	573,770
Bond proceeds	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	(11,856)	0	0	(11,856)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(11,856)</u>	<u>573,770</u>	<u>0</u>	<u>561,914</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(53,116)</u>	<u>270,451</u>	<u>0</u>	<u>217,335</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	179,321	(268,267)	1,886	(87,060)
<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>\$ 126,205</u>	<u>\$ 2,184</u>	<u>\$ 1,886</u>	<u>\$ 130,275</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, 2011

Net change in total fund balances per fund financial statements	\$ 217,335
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.	245,880
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.	(573,770)
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.	97,139
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>785</u>
Change in net assets of governmental activities	\$ <u><u>(12,631)</u></u>

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

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year ended June 30, 2011**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 278,500	\$ 287,025	\$ 277,614	\$ (9,411)
Delinquent property taxes	16,000	8,500	9,292	792
Total taxes	<u>294,500</u>	<u>295,525</u>	<u>286,906</u>	<u>(8,619)</u>
Licenses and permits				
Occupational license	7,600	8,100	7,200	(900)
Insurance premiums	421,644	450,000	357,864	(92,136)
Community center rental	4,000	4,200	4,350	150
Franchise fees	23,557	22,000	25,966	3,966
Telecommunication tax	5,900	5,900	5,873	(27)
Total licenses & permits	<u>462,701</u>	<u>490,200</u>	<u>401,253</u>	<u>(88,947)</u>
Fines and forfeits				
Parking fines	200	200	138	(62)
Total fines and forfeits	<u>200</u>	<u>200</u>	<u>138</u>	<u>(62)</u>
Intergovernmental revenue				
House bill 413	18,100	15,000	11,503	(3,497)
Municipal road aid	49,765	39,000	42,439	3,439
Police incentive pay	24,422	21,700	21,749	49
Fire state aid	0	30,000	8,250	(21,750)
LGEA coal severance	84,000	87,000	72,987	(14,013)
LGEA mineral severance	16,300	31,000	15,560	(15,440)
Other grants	0	1,000	2,303	1,303
Total intergovernmental revenue	<u>192,587</u>	<u>224,700</u>	<u>174,791</u>	<u>(49,909)</u>
Charges for services				
Sanitatin fees	362,750	363,600	359,212	(4,388)
Fire district contract	25,000	25,000	25,000	0
Arrest fees	3,300	4,000	3,985	(15)
Total charges for services	<u>391,050</u>	<u>392,600</u>	<u>388,197</u>	<u>(4,403)</u>
Miscellaneous				
Interest income	700	800	195	(605)
Donations	3,300	1,400	8,200	6,800
Other miscellaneous income	29,846	24,000	36,125	12,125
Total miscellaneous	<u>33,846</u>	<u>26,200</u>	<u>44,520</u>	<u>18,320</u>
<b>TOTAL REVENUES</b>	<u>1,374,884</u>	<u>1,429,425</u>	<u>1,295,805</u>	<u>(133,620)</u>
<b>EXPENDITURES</b>				
General Government				
Salaries and related payroll taxes	64,963	65,028	69,618	(4,590)
Retirement	10,149	9,697	9,631	66
Life & health insurance	41,280	22,554	38,940	(16,386)
Insurance	22,480	21,280	17,031	4,249
Advertising & printing	3,000	3,000	2,441	559
Professional fees	5,277	7,000	10,791	(3,791)
Utilities & communications	8,500	13,000	10,864	2,136
Other contractual services	11,000	12,000	8,654	3,346
Community center expense	9,500	8,000	6,327	1,673
Materials & supplies	8,750	13,000	6,773	6,227
Other costs	16,500	14,000	10,994	3,006
Total General Government	<u>201,399</u>	<u>188,559</u>	<u>192,064</u>	<u>(3,505)</u>

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL-Continued**  
**GENERAL FUND**  
**Year ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Police</b>				
Salaries and related payroll taxes	227,802	233,920	236,565	(2,645)
Retirement	32,712	31,690	36,996	(5,306)
Life & health insurance	61,890	45,302	58,039	(12,737)
Insurance	20,000	26,422	21,437	4,985
Advertising & printing	500	1,000	4	996
Professional fees	700	1,000	0	1,000
Utilities & communications	10,800	10,800	10,146	654
Other contractual services	10,250	18,500	5,869	12,631
Materials & supplies	29,200	43,000	25,416	17,584
Other costs	32,100	32,600	21,190	11,410
Capital outlay	0	0	1,342	(1,342)
<b>Total Police</b>	<b>425,954</b>	<b>444,234</b>	<b>417,004</b>	<b>27,230</b>
<b>Fire</b>				
Salaries and related payroll taxes	18,424	18,424	17,971	453
Retirement	2,874	2,743	2,800	(57)
Life & health insurance	115	7,530	593	6,937
Insurance	20,933	20,933	20,864	69
Advertising & printing	75	75	0	75
Professional fees	0	0	0	0
Utilities & communications	13,000	15,000	14,891	109
Other contractual services	9,800	10,000	6,743	3,257
Materials & supplies	14,500	14,000	10,801	3,199
Other costs	81,925	83,890	85,770	(1,880)
Capital outlay	0	9,900	5,000	4,900
<b>Total Fire</b>	<b>161,646</b>	<b>182,495</b>	<b>165,433</b>	<b>17,062</b>
<b>Street</b>				
Salaries and related payroll taxes	87,469	94,670	83,506	11,164
Retirement	13,643	14,161	13,037	1,124
Life & health insurance	36,938	30,125	35,373	(5,248)
Insurance	12,650	11,974	10,508	1,466
Advertising & printing	0	0	0	-
Professional fees	0	0	0	0
Utilities & communications	34,500	35,000	40,966	(5,966)
Other contractual services	2,000	21,000	6,331	14,669
Materials & supplies	24,400	33,390	11,240	22,150
Other costs	6,600	6,600	9,137	(2,537)
Capital outlay	8,000	8,000	5,386	2,614
<b>Total Street</b>	<b>226,200</b>	<b>254,920</b>	<b>215,484</b>	<b>39,436</b>

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL-Continued**  
**GENERAL FUND**  
**Year ended June 30, 2011**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Sanitation				
Salaries and related payroll taxes	117,355	123,690	117,991	5,699
Retirement	18,346	18,455	18,596	(141)
Life & health insurance	46,688	37,656	40,355	(2,699)
Insurance	20,396	20,423	20,795	(372)
Advertising & printing	0	0	0	0
Professional fees	0	0	0	0
Utilities & communications	1300	2200	1,367	833
Other contractual services	68000	88000	64,519	23481
Materials & supplies	45800	47500	66,467	-18967
Other costs	33800	32901	16,990	15911
Capital outlay			0	0
Total Sanitation	<u>351,685</u>	<u>370,825</u>	<u>347,080</u>	<u>23,745</u>
<b>TOTAL EXPENDITURES</b>	<u>1,366,884</u>	<u>1,441,033</u>	<u>1,337,065</u>	<u>103,968</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPEND</b>	<u>8,000</u>	<u>(11,608)</u>	<u>(41,260)</u>	<u>(29,652)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases & loans	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	<u>(8,000)</u>	<u>(10,000)</u>	<u>(11,856)</u>	<u>(1,856)</u>
<b>TOTAL OTHER FINANCING SOURCES (U</b>	<u>(8,000)</u>	<u>(10,000)</u>	<u>(11,856)</u>	<u>(1,856)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>0</u>	<u>(21,608)</u>	<u>(53,116)</u>	<u>(31,508)</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	179,321	179,321	179,321	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>\$ 179,321</u>	<u>\$ 157,713</u>	<u>\$ 126,205</u>	<u>\$ (31,508)</u>

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

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2011

	<u>SWIMMING POOL</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,960
Inventory	<u>0</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,960</u>
<b>NONCURRENT ASSETS</b>	
Capital assets	185,920
Less: accumulated depreciation	<u>(136,565)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>49,355</u>
<b>TOTAL ASSETS</b>	<u>\$ 51,315</u>
 <b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ -
Accrued payroll and related expenses	2,129
Accrued sales tax	<u>38</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,167</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	49,355
Unrestricted	<u>(207)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 49,148</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, 2011

	<u>SWIMMING POOL</u>
<b>OPERATING REVENUES</b>	
Pool receipts	\$ <u>12,763</u>
<b>TOTAL OPERATING REVENUE</b>	<u>12,763</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	13,820
Payroll taxes	1,122
Materials & supplies	2,144
Repairs & maintenance	722
Purchases for resale	374
Licenses & other taxes	284
Telephone	798
Utilities	3,039
Bank charges	5
Depreciation	<u>2,513</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>24,821</u>
Operating loss	<u>(12,058)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Operating transfers in	11,856
Other income	<u>0</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSES)</b>	<u>11,856</u>
Net income (loss)	(202)
<b>TOTAL NET ASSETS BEGINNING</b>	49,350
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>0</u>
<b>TOTAL NET ASSETS ENDING</b>	<u>\$ <u>49,148</u></u>

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

**CITY OF LOUISA, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2011

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from:	
Pool receipts	\$ 12,763
Cash paid to/for:	
Employees	(15,828)
Materials & supplies	(2,144)
Purchases for resale	(722)
Other activities	(7,750)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(13,681)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Transfers from other funds	11,856
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>11,856</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of capital assets	0
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>0</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

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 (1,825)

**BALANCES, BEGINNING OF YEAR** 3,785

**BALANCES, END OF YEAR** \$ 1,960

Reconciliation of operating income (loss) to net cash provided  
(used) by operating activities

Operating income \$ (12,058)

Adjustments to reconcile operating income to net cash provided  
(used) by operating activities

Depreciation 2,513

Other income 0

Interest 0

Change in assets and liabilities

    Receivables 0

    Inventory 0

    Accounts payable & accrued sales tax (3,250)

    Accrued payroll & benefits (886)

**NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** \$ (13,681)

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

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
Year ended June 30, 2011

**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, 2011, which is different from the City, which is June 30, 2011. 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, 2011 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, 2011

**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, 2011

**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. Special revenue funds for the year ended June 30, 2011 are considered nonmajor funds.
- (C) Capital project funds are used to account for financial resources to be used in the acquisition and construction of major capital facilities. Construction funds for the year ended June 30, 2011 are considered major funds.

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, 2011

**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, 2011, to finance the General Fund operations were \$.242 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, 2011

**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 loose 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, 2011

**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, 2011

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

Fund Balances

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

- Non-spendable-permanently nonspendable by decree of the donor, such as an endowment, or items, which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand
- Restricted-legally restricted under federal or state law, bond authority, or grantor contract
- Committed-commitments passed by the board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations.

GASB statement 54 provides that when governments have not established a spending policy, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those classifications could be used.

Encumbrances are not liabilities and, therefore are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet. There were no open encumbrances at June 30, 2011.

Whenever a budget for the subsequent year is adopted where a portion of existing fund balance is included as a budgetary resource to eliminate a projected excess of expected expenditures over expected revenues. That portion of fund balance is considered assigned. The current year fund balance was not included as a budgetary resource in the subsequent year budget.

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.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

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

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.

**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 \$42,077. Cash was secured by \$250,000 of Federal Depository Insurance, with an additional \$69,765 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>50,077</u>	\$ 41,194
Cash on hand		883
Total		\$ <u>42,077</u>

Breakdown per financial statements:

Governmental funds	\$ 40,117
Proprietary funds	1,960
Total	\$ <u>42,077</u>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Land	\$ 386,521	\$ 0	\$ 0	\$ 386,521
Buildings and improvements	836,687	0	0	836,687
Vehicles	1,285,032	11,728	0	1,296,760
Equipment	<u>353,204</u>	<u>0</u>	<u>0</u>	<u>353,204</u>
Totals for City	2,861,444	11,728	0	2,873,172
Construction in progress-W & S	<u>1,544,707</u>	<u>348,532</u>	<u>1,139,717</u>	<u>753,522</u>
Totals at historical cost	4,406,151	360,260	1,139,717	3,626,694
Less: accumulated depreciation				
Buildings and improvements	278,954	23,256	0	302,210
Vehicles	1,075,130	68,504	0	1,143,634
General equipment	<u>199,366</u>	<u>22,620</u>	<u>0</u>	<u>221,986</u>
Total accumulated depreciation	<u>1,553,450</u>	<u>114,380</u>	<u>0</u>	<u>1,667,830</u>
Governmental Activities Capital Assets - Net	<u>\$ 2,852,701</u>	<u>\$ 245,880</u>	<u>\$ 1,139,717</u>	<u>\$ 1,958,864</u>

Business-Type Activities

Swimming pool land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Swimming pool buildings	41,151	0	0	41,151
Swimming pool equipment	<u>119,769</u>	<u>0</u>	<u>0</u>	<u>119,769</u>
Totals at historical cost	<u>185,920</u>	<u>0</u>	<u>0</u>	<u>185,920</u>
Less: accumulated depreciation				
Swimming pool buildings	34,153	551	0	34,704
Swimming pool equipment	<u>99,900</u>	<u>1,961</u>	<u>0</u>	<u>101,861</u>
Total accumulated depreciation	<u>134,053</u>	<u>2,512</u>	<u>0</u>	<u>136,565</u>

Business-Type Activities

Capital Assets - Net	<u>\$ 51,867</u>	<u>\$ (2,512)</u>	<u>\$ 0</u>	<u>\$ 49,355</u>
----------------------	------------------	-------------------	-------------	------------------

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

Governmental Activities:

General Government	\$ 10,939
Police	20,523
Fire	62,570
Streets	7,336
Sanitation	<u>13,012</u>
<b>TOTAL</b>	<u>\$ 114,380</u>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**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, 2011:

Long-term debt July 1, 2010	\$ 275,805
Additional borrowings	0
Debt retired	<u>( 97,139)</u>
Long-term debt JUNE 30, 2011	<u>\$ 178,666</u>

Long-term debt at June 30, 2011 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.	36,948
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.	40,000
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..	79,210
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.	8,193
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>14,315</u>
<b><u>TOTAL DEBT</u></b>	<b><u>\$ 178,666</u></b>

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**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
2012	79,373.20	6,117.32	85,490.52
2013	31,733.94	3,301.54	35,035.48
2014	6,230.24	1,777.04	8,007.28
2015	6,516.72	1,702.78	8,219.50
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>\$ 178,666.14</b>	<b>\$ 22,445.58</b>	<b>\$ 201,111.72</b>

**NOTE F- COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2011 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. The lease payment is shared equally between the City and the Water & Sewer Commission.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**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 16.93% of the employees' total compensation subject to contribution. The City contributed the amount of \$82,498 during the year ended June 30, 2011 equal to 16.93% of the retirement wages. Contributions by employees for the year ended June 30, 2011 was withholding of \$26,597. The City payroll for the year ended June 30, 2011 was \$494,882.

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.

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.

Also in the planning stages at June 30, 2011 is the "Five Forks Sewer Extension Project". The funding will be thru a KIA loan of \$400,000 with \$120,000 principal forgiveness and a \$250,000 grant from Lawrence County.

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**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 form the Louisa Water Plant. The parties to this law suit have agreed upon a settlement dated 05/21/2012 in the amount of \$340,000, all without interest, which will be paid as follows: \$100,000 to be paid within five working days of the final approval by the Sixth Circuit, \$60,000 paid by 10/01/2012, and the remaining \$180,000 paid in annual installments of \$45,000 commencing 04/01/2013.

This liability has been recorded in the financial statements of the Louisa Water & Sewer Commission for the year ended May 31, 2011.

**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 2011 are as follows:

Sanitation fees billed	\$364,711
Sanitation fees collected by the Commission	360,870
Outstanding fees included in customer accounts receivable	34,856
Due to the City of Louisa for collected and uncollected sanitation fees	34,777

**CITY OF LOUISA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2011

**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 Louisa Swimming Pool has a deficit fund balance of \$207 at 06/30/2011.

**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	\$ 11,856

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

**DUE FROM**

**DUE TO**

**SPECIAL REVENUE FUNDS**

**FUND**

**AMOUNT**

HOUSE BILL 410- PROJECT 346  
Subtotal

General Fund \$ 1,915  
1,915

**GENERAL FUND**

Construction  
Rt 32 Relocation 27,205

**TOTAL**

\$ 29,120



## **SUPPLEMENTARY INFORMATION**

**CITY OF LOUISA, KENTUCKY**  
**COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS**  
 June 30, 2011

<b>ASSETS</b>	<u>COATS FOR KIDS FUND</u>	<u>STATE GRANTS HOUSE BILL 410 PROJECT 346</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
Cash	\$ 1,886	\$ 0	\$ 1,886
Grant monies receivable	0	1,915	1,915
Due from City of Louisa	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,886</u>	<u>\$ 1,915</u>	<u>\$ 3,801</u>
 <b>LIABILITIES &amp; FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable-other	\$ 0	\$ 0	\$ 0
Due to City of Louisa	0	1,915	1,915
Deferred revenue	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>1,915</u>	<u>1,915</u>
 <b>FUND BALANCES</b>			
Nonspendable	0	0	0
Restricted	1,886	0	1,886
Committed	0	0	0
Assigned	0	0	0
Unassigned	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL FUND BALANCES</b>	<u>1,886</u>	<u>0</u>	<u>1,886</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u>\$ 1,886</u>	<u>\$ 0</u>	<u>\$ 3,801</u>

**CITY OF LOUISA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**NONMAJOR GOVERNMENTAL FUNDS**  
 June 30, 2011

	<u>COATS FOR KIDS FUND</u>	<u>STATE GRANTS HOUSE BILL 410 PROJECT 346</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>			
Grant receipts-Direct Federal	\$ 0	\$ 0	\$ 0
Grant receipts-Indirect Federal	0	0	0
State Grants	0	15,385	15,385
Contributions and other receipts	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL REVENUE</b>	<u>0</u>	<u>15,385</u>	<u>15,385</u>
<b>EXPENDITURES</b>			
Renovatiom	0	0	0
Fire department equipment	0	0	0
Contributions	0	0	0
Fund raisers	0	0	0
Beautification & Improvements	0	15,385	15,385
Bank charges	0	0	0
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>0</u>	<u>15,385</u>	<u>15,385</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OTHER FINANCING (USES)</b>	<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>0</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>1,886</u>	<u>0</u>	<u>1,886</u>
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 1,886</u>	<u>\$ 0</u>	<u>\$ 1,886</u>

**CITY OF LOUISA, KENTUCKY**  
**COMBINING BALANCE SHEET-CONSTRUCTION FUNDS**  
 June 30, 2011

ASSETS	MEADOWBROOK/BERG SUBDIVISION SEWER REHAB	AGREED ORDER WASTE WATER TREATMENT PLANT & FIVE FORKS SEWER PROJECT	WATER-LINE RELOCATION PROJECT ROUTE 32	FIRE DEPARTMENT TRAINING CENTER	TOTAL CONSTRUCTION FUNDS
Cash					
Grant monies receivable	\$ 10,000	\$ 0	\$ 0	\$ 2,184	\$ 12,184
Due from General Fund	0	0	0	0	0
	0	0	27,205	0	27,205
<b>TOTAL ASSETS</b>	<b>\$ 10,000</b>	<b>\$ 0</b>	<b>\$ 27,205</b>	<b>\$ 2,184</b>	<b>\$ 39,389</b>

**LIABILITIES & FUND BALANCES**

<b>LIABILITIES</b>					
Accounts payable	\$ 10,000	\$ 0	\$ 27,205	\$ 0	\$ 37,205
Deferred revenue	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>10,000</b>	<b>0</b>	<b>27,205</b>	<b>0</b>	<b>37,205</b>

**FUND BALANCES**

Nonspendable	0	0	0	0	0
Restricted	0	0	0	2,184	2,184
Committed	0	0	0	0	0
Assigned	0	0	0	0	0
Unassigned	0	0	0	0	0
<b>TOTAL FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,184</b>	<b>2,184</b>

**TOTAL LIABILITIES & FUND BALANCES**

<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 10,000</b>	<b>\$ 0</b>	<b>\$ 27,205</b>	<b>\$ 2,184</b>	<b>\$ 39,389</b>
--	------------------	-------------	------------------	-----------------	------------------

**CITY OF LOUISA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**CONSTRUCTION FUNDS**  
 Year ended June 30, 2011

	MEADOWBROOK/BERG SUBDIVISION SEWER REHAB	AGREED ORDER WASTE WATER TREATMENT PLANT & FIVE FORKS SEWER PROJECT	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	45,207	0	45,207
Interest income	0	0	0	6	6
<b>TOTAL REVENUE</b>	<u>0</u>	<u>0</u>	<u>45,207</u>	<u>6</u>	<u>45,213</u>
<b>EXPENDITURES</b>					
Capital outlay	167,215	136,110	45,207	0	348,532
<b>TOTAL EXPENDITURES</b>	<u>167,215</u>	<u>136,110</u>	<u>45,207</u>	<u>0</u>	<u>348,532</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(167,215)</u>	<u>(136,110)</u>	<u>0</u>	<u>6</u>	<u>(303,319)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds	266,073	307,697	0	0	573,770
Transfers in (out)	0	0	0	0	0
<b>TOTAL OTHER FINANCING (USES)</b>	<u>266,073</u>	<u>307,697</u>	<u>0</u>	<u>0</u>	<u>573,770</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>6</u>	<u>270,451</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>(98,858)</u>	<u>(171,587)</u>	<u>0</u>	<u>2,178</u>	<u>(268,267)</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE END OF YEAR</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,184</u>	<u>2,184</u>

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

P.O. Box 809  
2425 Highway 2565  
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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Louisa, Kentucky as of and for the year ended June 30, 2011, which collectively comprise the City of Louisa, Kentucky's basic financial statements and have issued our report thereon dated August 7, 2012. 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, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting 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 responses as items 11-01, 11-02, and 11-03 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* and which are described in the accompanying schedule of findings and responses as items 11-04 and 11-05.

We also noted certain additional matters that we reported to the management of the City of Louisa in a separate letter dated August 07, 2012.

The City of Louisa, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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 J Howard, CPA*

August 07, 2012

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2011

**Reportable Conditions 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**

**Finding 11-01: 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.

**Finding 11-02: Accounting Errors (Repeat)**

**Condition:** Several audit adjustments had to be made to record accruals and reclassify recorded transactions.

**Criteria:** Oversight of financial reporting should be utilized to insure that generally accepted accounting principles are being followed and transactions recorded in the proper accounts.

**Cause of Condition:** This problem is associated with finding number 11-01.

**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.



**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED**  
Year ended June 30, 2011

**Finding 11-03: 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.

**Finding 11-04: Requirements of KRS 424.220 pertaining to required publications**

**Condition:** Financial statements for the year ended 06/30/11 were not published in the newspaper within sixty days after year-end.

**Criteria:** The Kentucky Revised Statutes set forth mandatory requirements for cities to follow.

**Cause of Condition:** Lack of oversight by management to insure that the financial statements are published.

**Effect of Condition:** The City is in noncompliance with the KRS.

**Recommendation:** The City Clerk should make every effort to insure that all required financial statements, budgets, legal notices, etc. are published in accordance with the Kentucky Revised Statutes.

**Management Comment:** The City was short of funds at that time so the financial statements were not published.

**CITY OF LOUISA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED**  
Year ended June 30, 2011

**Finding 11-05: 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.

# **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

August 07, 2012

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, 2011, 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 August 07, 2012, 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 August 07, 2012, 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,



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

CITY OF LOUISA  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2011

**STATUS OF PRIOR YEARS FINDINGS:**

Prior years findings have not been addressed and corrected.

**CURRENT YEAR FINDINGS**

**Finding 11-06: Payment of Salary to Deputy Clerk in Accordance With City Ordinance NO. 2010-04 (Repeat)**

**Condition:** The City Ordinance setting the salary for the deputy clerk was not in agreement with the amount being paid. The deputy clerk did not receive a raise and was paid the same amount as the prior year, which was correct. The ordinance was prepared incorrectly.

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

**Cause of Condition:** Management did give proper oversight to insure that the ordinance was correctly prepared.

**Effect of Deficiency:** Paid salary did not agree with ordinance.

**Recommendation:** Salaries should always be paid in accordance with the City Ordinance and the ordinance should always be reviewed for accuracy.

**Management Comment:** This was simply an oversight. More attention will be paid to the preparation of the ordinance in the future.

**Finding 11-07: Payment of Salaries to City Employees in Accordance With City Ordinance NO. 2010-04**

**Condition:** The code enforcer was given an hourly raise of fifty cents on December 15, 2010. 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 was hired on a six-month probation and was not given the raise when the probation ended. The lack of an amendment to the City Ordinance was an oversight.

CITY OF LOUISA  
MANAGEMENT LETTER POINTS-(Continued)  
FOR THE YEAR ENDED JUNE 30, 2011

**Finding 11-08: Purchase Orders Are Not Being Marked Paid When Invoice Is Paid**

**Condition:** Purchase orders that are maintained in the file with all issued PO's are not being stamped paid.

**Criteria:** Purchase orders should be marked paid along with the date and check number also being identified on the purchase order.

**Cause of Condition:** Clerk did not know this was required since this information is placed on paid invoices.

**Effect of Deficiency:** The amount of outstanding obligations cannot be calculated unless outstanding PO's can be identified.

**Recommendation:** When bills are paid and invoices so noted, the master file of PO's should also be updated.

**Management Comment:** Management concurs with this recommendation.