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CITY OF LOUISA
COMMONWEALTH OF KENTUCKY

REPORT OF AUDIT
FISCAL YEAR ENDED
JUNE 30, 2012

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

CITY OF LOUISA, KENTUCKY

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

	<u>Page</u>
Independent Auditor's Report	1-2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	3
Statement of Activities.....	4-5
Fund Financial Statements:	
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
Notes to the Basic Financial Statements	16-29

CITY OF LOUISA, KENTUCKY
TABLE OF CONTENTS-CONTINUED
YEAR ENDED JUNE 30, 2012

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
Schedule of Expenditures of Federal Awards.....	34
Notes to Schedule of Expenditures of Federal Awards	35
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.....	36-37
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.....	38-39
Schedule of Findings and Questioned Costs	40-42
Schedule of Prior Year Audit Findings.....	43

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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, 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 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, 2012, 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 November 07, 2013, 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 omitted, *Management's Discussion and Analysis*, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financials statements is not affected by this missing information.

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 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other 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 financial statements taken as a whole.

 Daniel A. Howard, CPA

November 07, 2013

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	
Current assets				
Cash an cash equivalents	\$ 94,788	\$ 2,773	\$ 97,561	\$ 1,053,284
Property taxes receivable	11,373	0	11,373	0
Grant monies receivable	163,756	0	163,756	24,320
Insurance tax receivable	98,683	0	98,683	0
Sanitation fees receivable	87,966	0	87,966	0
Other receivables	300	0	300	0
Customer accounts receivable	0	0	0	276,144
Customer accounts receivable unbilled	0	0	0	165,217
Inventories	0	0	0	70,497
Bond issue costs	0	0	0	48,191
Other assets	43,430	0	43,430	34,648
Total current assets	<u>500,296</u>	<u>2,773</u>	<u>503,069</u>	<u>1,672,301</u>
Noncurrent assets				
Capital assets	4,588,648	185,920	4,774,568	21,363,058
Less: accumulated depreciation	(1,587,406)	(139,077)	(1,726,483)	(6,871,935)
Total noncurrent assets	<u>3,001,242</u>	<u>46,843</u>	<u>3,048,085</u>	<u>14,491,123</u>
TOTAL ASSETS	<u>\$ 3,501,538</u>	<u>\$ 49,616</u>	<u>\$ 3,551,154</u>	<u>\$ 16,163,424</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 279,803	\$ -	\$ 279,803	\$ 132,756
Accrued expenses	19,931	3,423	23,354	33,934
Accrued compensated absences	10,229	0	10,229	26,165
Interest Payable	603	0	603	30,775
Customer deposits	0	0	0	52,394
Due to City of Louisa-trash fees	0	0	0	92,484
Due Lawrence County-sewer fees	0	0	0	19,671
Law suit settlement payable-current	0	0	0	160,000
Current portion of loan & capital lease payments	30,734	0	30,734	0
Current liabilities payable from restricted assets	0	0	0	242,427
Deffered revenue	0	0	0	0
Total current liabilities	<u>341,300</u>	<u>3,423</u>	<u>344,723</u>	<u>790,606</u>
Noncurrent liabilities				
Bonds, notes, loans and capital lease paymnets	67,559	0	67,559	5,027,049
Loans payable-Construction Fund-to be assumed by W&S	941,462	0	941,462	0
Construction loan B08-07	0	0	0	910,062
Law suit settlement payable	0	0	0	180,000
Total noncurrent liabilities	<u>1,009,021</u>	<u>0</u>	<u>1,009,021</u>	<u>6,117,111</u>
TOTAL LIABILITIES	<u>\$ 1,350,321</u>	<u>\$ 3,423</u>	<u>\$ 1,353,744</u>	<u>\$ 6,907,717</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,961,487	46,843	2,008,330	8,311,585
Restricted for:				
Debt service	0	0	0	158,980
Capital assets repair and replacement	0	0	0	653,277
Capital projects	(130,109)	0	(130,109)	165
Special revenue	1,886	0	1,886	0
Law suit settlement	0	0	0	100,010
Unrestricted	317,953	(650)	317,303	31,690
TOTAL NET ASSETS	<u>\$ 2,151,217</u>	<u>\$ 46,193</u>	<u>\$ 2,197,410</u>	<u>\$ 9,255,707</u>

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

CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	
Primary government:					
Governmental activities:					
General government	\$ 217,830	\$ 0	\$ 102,556	\$ 0	\$ (115,274)
Public safety:					
Police	297,344	3,270	14,250	0	(279,824)
Fire	155,144	35,000	8,250	0	(111,894)
Streets	158,184	0	51,237	0	(106,947)
Sanitation	337,284	359,216	0	0	21,932
Community service activities	0	0	0	0	-
Beautification and improvements	19,133	0	19,133	0	0
Construction	0	0	0	735,536	735,536
Interest on long term debt	5,077	0	0	0	(5,077)
Total governmental activities	<u>1,189,996</u>	<u>397,486</u>	<u>195,426</u>	<u>735,536</u>	<u>138,452</u>
Business type activities:					
Swimming pool	23,956	10,599	0	0	(13,357)
Total business type activities	<u>23,956</u>	<u>10,599</u>	<u>0</u>	<u>0</u>	<u>(13,357)</u>
Total primary government	<u>\$ 1,213,952</u>	<u>\$ 408,085</u>	<u>\$ 195,426</u>	<u>\$ 735,536</u>	<u>\$ 125,095</u>
Component units:					
Louisa Water & Sewer Commission	\$ 2,459,070	\$ 2,414,753	\$ 0	\$ 752,996	\$ 708,679
Total component units	<u>\$ 2,459,070</u>	<u>\$ 2,414,753</u>	<u>\$ 0</u>	<u>\$ 752,996</u>	<u>\$ 708,679</u>

Continued

CITY OF LOUISA, KENTUCKY
STATEMENT OF ACTIVITIES-Continued
Year ended June 30, 2012

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-tupe Activities</u>	<u>Total</u>	
Changes in net assets:				
Net (expense) revenue	\$ <u>138,452</u>	\$ <u>(13,357)</u>	\$ <u>125,095</u>	\$ <u>708,679</u>
General revenues:				
Taxes	298,505	0	298,505	0
Licenses & permits	428,257	0	428,257	0
Fines & forfeits	175	0	175	0
Miscellaneous	47,997	0	47,997	4,404
Interest income	115	0	115	4,116
Gain (loss) on sale of fixed assets	5,979	0	5,979	0
Transfers	<u>(10,402)</u>	<u>10,402</u>	<u>0</u>	<u>0</u>
Total general revenues & transfers	<u>770,626</u>	<u>10,402</u>	<u>781,028</u>	<u>8,520</u>
Changes in net assets	909,078	(2,955)	906,123	717,199
Net assets- beginning	1,242,139	49,148	1,291,287	8,538,508
Prior period adjustment	0	0	0	0
Net assets- ending	<u>\$ 2,151,217</u>	<u>\$ 46,193</u>	<u>\$ 2,197,410</u>	<u>\$ 9,255,707</u>

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

CITY OF LOUISA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

ASSETS	<u>GENERAL FUND</u>	<u>CONSTRUCTION FUNDS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash	\$ 87,816	\$ 5,086	\$ 1,886	\$ 94,788
Due from other funds	3,422	84,624	0	88,046
Property taxes receivable	11,373	0	0	11,373
Grant monies receivable	125,524	34,810	3,422	163,756
Insurance tax receivable	98,683	0	0	98,683
Sanitation fees receivable	87,966	0	0	87,966
Other receivable	300	0	0	300
Prepaid expenses	43,430	0	0	43,430
Inventories, supplies	0	0	0	0
TOTAL ASSETS	<u>\$ 458,514</u>	<u>\$ 124,520</u>	<u>\$ 5,308</u>	<u>\$ 588,342</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 25,174	\$ 254,629	\$ 0	\$ 279,803
Accrued expenses	19,931	0	0	19,931
Accrued compensated absences	10,229	0	0	10,229
Due to other funds	84,624	0	3,422	88,046
Deferred revenue	0	0	0	0
TOTAL LIABILITIES	<u>139,958</u>	<u>254,629</u>	<u>3,422</u>	<u>398,009</u>
 FUND BALANCES				
Nonspendable	0	0	0	0
Restricted	0	(130,109)	1,886	(128,223)
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	318,556	0	0	318,556
TOTAL FUND BALANCES	<u>318,556</u>	<u>(130,109)</u>	<u>1,886</u>	<u>190,333</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 458,514</u>	<u>\$ 124,520</u>	<u>\$ 5,308</u>	<u>\$ 588,342</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, 2012

Total fund balance per fund financial statements	\$ 190,333
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.	3,001,242
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>(1,040,358)</u>
Net assets for governmental activities	\$ <u><u>2,151,217</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, 2012

	GENERAL FUND	CONSTRUCTION FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 298,505	\$ 0	\$ 0	\$ 298,505
License and permits	428,257	0	0	428,257
Intergovernmental-state	176,293	735,536	19,133	930,962
Intergovernmental-indirect federal	0	0	0	0
Intergovernmental- direct federal	0	0	0	0
Charges for services	397,486	0	0	397,486
Fines and forfeits	175	0	0	175
Miscellaneous	59,032	2	0	59,034
TOTAL REVENUE	<u>1,359,748</u>	<u>735,538</u>	<u>19,133</u>	<u>2,114,419</u>
EXPENDITURES				
Current:				
General	206,573	0	0	206,573
Police	291,577	0	0	291,577
Fire	167,568	0	0	167,568
Streets	157,483	0	0	157,483
Sanitation	328,471	0	0	328,471
Special revenue	0	0	19,133	19,133
Capital outlay	5,170	2,052,530	0	2,057,700
TOTAL EXPENDITURES	<u>1,156,842</u>	<u>2,052,530</u>	<u>19,133</u>	<u>3,228,505</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>202,906</u>	<u>(1,316,992)</u>	<u>0</u>	<u>(1,114,086)</u>
OTHER FINANCING SOURCES (USES)				
Capital leases & loans	0	1,184,546	0	1,184,546
Bond proceeds	0	0	0	0
Operating transfers in	0	153	0	153
Operating transfers out	(10,555)	0	0	(10,555)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,555)</u>	<u>1,184,699</u>	<u>0</u>	<u>1,174,144</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>192,351</u>	<u>(132,293)</u>	<u>0</u>	<u>60,058</u>
FUND BALANCE BEGINNING OF YEAR	126,205	2,184	1,886	130,275
PRIOR PERIOD ADJUSTMENT	0	0	0	0
FUND BALANCE (DEFICIT) END OF YEAR	<u>\$ 318,556</u>	<u>\$ (130,109)</u>	<u>\$ 1,886</u>	<u>\$ 190,333</u>

*245,000.
Turn
around
Main reserve
110,000
payroll
Inc. per unit
up.*

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, 2012

Net change in total fund balances per fund financial statements	\$ 60,058
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.	1,957,383
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.	(1,184,546)
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.	80,373
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.	753
The total sales price from the sale of fixed assets is recognized as income in the fund financial statements, but only the difference between the sales price and the undepreciated basis of the fixed asset is recognized as income in the statement of activities.	<u>(4,943)</u>
Change in net assets of governmental activities	\$ <u><u>909,078</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, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 281,000	\$ 281,000	\$ 283,962	\$ 2,962
Delinquent property taxes	9,800	9,800	14,543	4,743
Total taxes	<u>290,800</u>	<u>290,800</u>	<u>298,505</u>	<u>7,705</u>
Licenses and permits				
Occupational license	7,300	7,300	6,890	(410)
Insurance premiums	350,000	350,000	387,825	37,825
Community center rental	4,000	4,000	3,200	(800)
Franchise fees	14,200	14,200	27,751	13,551
Telcommunication tax	4,500	4,500	5,791	1,291
Total licenses & permits	<u>380,000</u>	<u>380,000</u>	<u>431,457</u>	<u>51,457</u>
Fines and forfeits				
Parking fines	200	200	175	(25)
Total fines and forfeits	<u>200</u>	<u>200</u>	<u>175</u>	<u>(25)</u>
Intergovernmental revenue				
House bill 413	12,000	12,000	10,019	(1,981)
Municipal road aid	50,000	50,000	51,237	1,237
Police incentive pay	21,750	21,750	14,250	(7,500)
Fire state aid	0	0	8,250	8,250
LGEA coal severance	78,000	78,000	68,163	(9,837)
LGEA mineral severance	18,000	18,000	16,238	(1,762)
Other grants	6,350	6,350	8,136	1,786
Total intergovernmental revenue	<u>186,100</u>	<u>186,100</u>	<u>176,293</u>	<u>(9,807)</u>
Charges for services				
Sanitation fees	360,000	360,000	359,216	(784)
Fire district contract	25,000	25,000	35,000	10,000
Arrest fees	3,500	3,500	3,270	(230)
Total charges for services	<u>388,500</u>	<u>388,500</u>	<u>397,486</u>	<u>8,986</u>
Miscellaneous				
Interest income	300	300	113	(187)
Donations	3,000	3,000	4,975	1,975
Other miscellaneous income	46,532	46,532	50,744	4,212
Total miscellaneous	<u>49,832</u>	<u>49,832</u>	<u>55,832</u>	<u>6,000</u>
TOTAL REVENUES	<u>1,295,432</u>	<u>1,295,432</u>	<u>1,359,748</u>	<u>64,316</u>
EXPENDITURES				
General Government				
Salaries and related payroll taxes	65,332	65,332	69,268	(3,936)
Retirement	11,453	11,453	10,590	863
Life & health insurance	41,386	41,386	43,612	(2,226)
Insurance	15,415	15,415	14,583	832
Advertising & printing	3,000	3,000	4,175	(1,175)
Professional fees	11,500	11,500	4,173	7,327
Utilities & communications	11,700	11,700	12,690	(990)
Other contractual services	11,000	11,000	21,620	(10,620)
Community center expense	7,000	7,000	7,877	(877)
Materials & supplies	7,730	7,730	6,221	1,509
Other costs	18,450	18,450	11,764	6,686
Total General Government	<u>203,966</u>	<u>203,966</u>	<u>206,573</u>	<u>(2,607)</u>

CITY OF LOUISA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-Continued
GENERAL FUND
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Favorable (Unfavorable)
Police				
Salaries and related payroll taxes	210,018	210,018	165,581	44,437
Retirement	32,454	32,454	29,487	2,967
Life & health insurance	51,876	51,876	43,320	8,556
Insurance	22,206	22,206	13,486	8,720
Advertising & printing	250	250	459	(209)
Professional fees	250	250	0	250
Utilities & communications	12,100	12,100	11,194	906
Other contractual services	10,250	10,250	3,789	6,461
Materials & supplies	32,609	32,609	14,650	17,959
Other costs	36,475	36,475	9,611	26,864
Capital outlay	0	0	5,170	(5,170)
Total Police	408,488	408,488	296,747	111,741
Fire				
Salaries and related payroll taxes	19,501	19,501	18,986	515
Retirement	3,415	3,415	3,314	101
Life & health insurance	115	115	1,088	(973)
Insurance	20,545	20,545	21,174	(629)
Advertising & printing	0	0	0	0
Professional fees	0	0	0	0
Utilities & communications	13,000	13,000	14,114	(1,114)
Other contractual services	9,800	9,800	7,331	2,469
Materials & supplies	14,250	14,250	17,669	(3,419)
Other costs	77,675	77,675	83,892	(6,217)
Capital outlay	0	0	0	0
Total Fire	158,301	158,301	167,568	(9,267)
Street				
Salaries and related payroll taxes	48,827	48,827	50,842	(2,015)
Retirement	8,556	8,556	8,596	(40)
Life & health insurance	10,490	10,490	13,427	(2,937)
Insurance	6,712	6,712	9,485	(2,773)
Advertising & printing	0	0	0	0
Professional fees	0	0	0	0
Utilities & communications	49,600	49,600	50,941	(1,341)
Other contractual services	3,600	3,600	5,067	(1,467)
Materials & supplies	15,900	15,900	13,046	2,854
Other costs	3,100	3,100	6,079	(2,979)
Capital outlay	0	0	0	0
Total Street	146,785	146,785	157,483	(10,698)

CITY OF LOUISA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-Continued
GENERAL FUND
Year ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Sanitation				
Salaries and related payroll taxes	118,417	118,417	107,143	11,274
Retirement	20,733	20,733	18,200	2,533
Life & health insurance	31,240	31,240	35,971	(4,731)
Insurance	19,800	19,800	20,973	(1,173)
Advertising & printing	0	0	0	0
Professional fees	0	0	0	0
Utilities & communications	1400	1400	889	511
Other contractual services	83000	83000	65,690	17310
Materials & supplies	49300	49300	74,282	-24982
Other costs	37000	37000	5,323	31677
Capital outlay			0	0
Total Sanitation	<u>360,890</u>	<u>360,890</u>	<u>328,471</u>	<u>32,419</u>
TOTAL EXPENDITURES	<u>1,278,430</u>	<u>1,278,430</u>	<u>1,156,842</u>	<u>121,588</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>17,002</u>	<u>17,002</u>	<u>202,906</u>	<u>185,904</u>
OTHER FINANCING SOURCES (USES)				
Capital leases & loans	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,555)</u>	<u>(555)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,555)</u>	<u>(555)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>7,002</u>	<u>7,002</u>	<u>192,351</u>	<u>185,349</u>
FUND BALANCE BEGINNING OF YEAR	126,205	126,205	126,205	0
PRIOR PERIOD ADJUSTMENT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE (DEFICIT) END OF YEAR	<u>\$ 133,207</u>	<u>\$ 133,207</u>	<u>\$ 318,556</u>	<u>\$ 185,349</u>

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

CITY OF LOUISA, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	<u>SWIMMING POOL</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,773
Inventory	<u>0</u>
TOTAL CURRENT ASSETS	<u>2,773</u>
NONCURRENT ASSETS	
Capital assets	185,920
Less: accumulated depreciation	<u>(139,077)</u>
TOTAL NONCURRENT ASSETS	<u>46,843</u>
TOTAL ASSETS	<u>\$ 49,616</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ -
Accrued payroll and related expenses	3,371
Accrued sales tax	<u>52</u>
TOTAL CURRENT LIABILITIES	<u>3,423</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,843
Unrestricted	<u>(650)</u>
TOTAL NET ASSETS	<u>\$ 46,193</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, 2012

	<u>SWIMMING POOL</u>
OPERATING REVENUES	
Pool receipts	\$ <u>10,599</u>
TOTAL OPERATING REVENUE	<u>10,599</u>
OPERATING EXPENSES	
Salaries and wages	14,541
Payroll taxes	1,019
Repairs & maintenance	1,268
Purchases for resale	1,659
Telephone	222
Utilities	2,442
Taxes & other licenses	167
Insurance	39
Bank charges	82
Miscellaneous	4
Depreciation	<u>2,513</u>
TOTAL OPERATING EXPENSES	<u>23,956</u>
Operating loss	<u>(13,357)</u>
NON-OPERATING REVENUE (EXPENSES)	
Operating transfers in	10,402
Other income	<u>0</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>10,402</u>
Net income (loss)	(2,955)
TOTAL NET ASSETS BEGINNING	49,148
PRIOR PERIOD ADJUSTMENT	<u>0</u>
TOTAL NET ASSETS ENDING	<u><u>\$ 46,193</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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from:	
Pool receipts	\$ 10,599
Cash paid to/for:	
Employees	(14,304)
Repairs and maintenance	(1,268)
Purchases for resale	(1,659)
Other activities	(2,957)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(9,589)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers from other funds	10,402
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>10,402</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest income	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>0</u>
Net increase (decrease) in cash and cash equivalents	813
BALANCES, BEGINNING OF YEAR	<u>1,960</u>
BALANCES, END OF YEAR	<u>\$ 2,773</u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities	
Operating income	\$ (13,357)
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	14
Accrued payroll & benefits	1,241
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (9,589)</u>
Schedule of non-cash transactions:	
Depreciation	<u>\$ 2,513</u>

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

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2012

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, 2012, which is different from the City, which is June 30, 2012. 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, 2012 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, 2012

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, 2012

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, 2012 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, 2012 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, 2012

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, 2012, 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, 2012

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, 2012

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, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances

As of June 30, 2012, 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, 2012.

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, 2012

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 \$97,561. Cash was secured by \$250,000 of Federal Depository Insurance, with an additional \$300,000 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	\$ 108,791	\$ 96,367
Cash on hand		1,194
Total		\$ 97,561
Breakdown per financial statements:		
Governmental funds		\$ 94,788
Proprietary funds		2,773
Total		\$ 97,561

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2012

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 386,521	\$ 0	\$ 0	\$ 386,521
Buildings and improvements	836,687	0	0	836,687
Vehicles	1,296,760	0	185,684	1,111,076
Equipment	353,204	5,170	0	358,374
Totals for City	2,873,172	5,170	185,684	2,692,658
Construction in progress-W & S	753,522	2,052,530	910,062	1,895,990
Totals at historical cost	3,626,694	2,057,700	1,095,746	4,588,648
Less: accumulated depreciation				
Buildings and improvements	302,210	23,255	0	325,465
Vehicles	1,143,634	55,357	180,741	1,018,250
General equipment	221,986	21,705	0	243,691
Total accumulated depreciation	1,667,830	100,317	180,741	1,587,406
Governmental Activities Capital Assets - Net	\$ <u>1,958,864</u>	\$ <u>1,957,383</u>	\$ <u>915,005</u>	\$ <u>3,001,242</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	34,704	551	0	35,255
Swimming pool equipment	101,861	1,961	0	103,822
Total accumulated depreciation	136,565	2,512	0	139,077
Business-Type Activities Capital Assets - Net	\$ <u>49,355</u>	\$ <u>(2,512)</u>	\$ <u>0</u>	\$ <u>46,843</u>

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

Governmental Activities:

General Government	\$ 11,257
Police	14,129
Fire	57,337
Streets	4,741
Sanitation	12,853
TOTAL	\$ <u>100,317</u>

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2012

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, 2012:

Long-term debt July 1, 2011	\$ 178,666
Additional borrowings	0
Debt retired	<u>(80,373)</u>
Long-term debt JUNE 30, 2012	<u>\$ 98,293</u>

Long-term debt at June 30, 2012 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.	18,257
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..	73,520
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>6,516</u>
<u>TOTAL DEBT</u>	<u>\$ 98,293</u>

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2012

NOTE E- CHANGES IN LONG-TERM DEBT-CONTINUED

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

YEAR ENDING <u>June-30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL REQUIREMENTS</u>
2013	30,734.33	3,048.55	33,782.88
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
FUTURE	<u>25,612.45</u>	<u>3,543.68</u>	<u>29,156.13</u>
TOTALS	\$ <u>98,293.36</u>	\$ <u>16,075.27</u>	\$ <u>114,368.63</u>

NOTE F- COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2012 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, 2012

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 18.96% of the employees' total compensation subject to contribution. The City contributed the amount of \$68,475 during the year ended June 30, 2012 equal to 18.96% of the retirement wages. Contributions by employees for the year ended June 30, 2012 was withholding of \$19,467. The City payroll for the year ended June 30, 2012 was \$384,962.

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.

- One project is the Route 32 utility relocation. The estimated cost is \$1,661,710 with funding to be provided by a Kentucky DOT grant.
- Five Forks sewer project is substantially completed with funding primarily from loans.
- Water interconnect and water treatment plant improvement with funding primarily from loans.

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2012

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 no pending litigation against the City.

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 2012 are as follows:

Sanitation fees billed	\$368,067
Sanitation fees collected by the Commission	366,261
Outstanding fees included in customer accounts receivable	34,927
Due to the City of Louisa for collected and uncollected sanitation fees	87,966

CITY OF LOUISA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2012

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 \$650 at 06/30/2012.

The Construction Fund has a deficit fund balance of &130,109 at 06/30/2012.

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	\$ 10,402
Capital outlay	General	Construction	Bank fees	153

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

DUE FROM

DUE TO

SPECIAL REVENUE FUNDS
HOUSE BILL 1- PROJECT A216
Subtotal

<u>FUND</u>	<u>AMOUNT</u>
General Fund	\$ 3,422
	3,422

GENERAL FUND

Construction	
Rt 32 Relocation	84,624

TOTAL

\$	<u>88,046</u>
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SUPPLEMENTARY INFORMATION

CITY OF LOUISA, KENTUCKY
COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2012

ASSETS	<u>COATS FOR KIDS FUND</u>	<u>STATE GRANTS HOUSE BILL 1 PROJECT A216</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
Cash	\$ 1,886	\$ 0	\$ 1,886
Grant monies receivable	0	3,422	3,422
Due from City of Louisa	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,886</u>	<u>\$ 3,422</u>	<u>\$ 5,308</u>
LIABILITIES & FUND BALANCES			
LIABILITIES			
Accounts payable-other	\$ 0	\$ 0	\$ 0
Due to City of Louisa	0	3,422	3,422
Deferred revenue	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>0</u>	<u>3,422</u>	<u>3,422</u>
FUND BALANCES			
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>
TOTAL FUND BALANCES	<u>1,886</u>	<u>0</u>	<u>1,886</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 1,886</u>	<u>\$ 0</u>	<u>\$ 5,308</u>

CITY OF LOUISA, KENTUCKY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2012

	<u>COATS FOR KIDS FUND</u>	<u>STATE GRANTS HOUSE BILL 1 PROJECT A216</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Grant receipts-Direct Federal	\$ 0	\$ 0	\$ 0
Grant receipts-Indirect Federal	0	0	0
State Grants	0	19,133	19,133
Contributions and other receipts	0	0	0
TOTAL REVENUE	<u>0</u>	<u>19,133</u>	<u>19,133</u>
EXPENDITURES			
Renovatiom	0	0	0
Fire department equipment	0	0	0
Contributions	0	0	0
Fund raisers	0	0	0
Beautification & Improvements	0	19,133	19,133
Bank charges	0	0	0
Capital outlay	0	0	0
TOTAL EXPENDITURES	<u>0</u>	<u>19,133</u>	<u>19,133</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	0	0	0
TOTAL OTHER FINANCING (USES)	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS OF REVENUES & OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES & OTHER FINANCING USES	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE BEGINNING OF YEAR	<u>1,886</u>	<u>0</u>	<u>1,886</u>
FUND BALANCE END OF YEAR	<u>\$ 1,886</u>	<u>\$ 0</u>	<u>\$ 1,886</u>

CITY OF LOUISA, KENTUCKY
COMBINING BALANCE SHEET-CONSTRUCTION FUNDS
 June 30, 2012

ASSETS	FIVE FORKS SEWER PROJECT	WATER TREATMENT PLANT IMPROVEMENT AND WATER INTERCONNECT PROJECT	WATER-LINE RELOCATION PROJECT ROUTE 32	FIRE DEPARTMENT TRAINING CENTER	TOTAL CONSTRUCTION FUNDS
Cash	\$ 85	\$ 2,815	\$ 0	\$ 2,186	\$ 5,086
Grant monies receivable	4,987	0	29,823	0	34,810
Due from General Fund	0	0	84,624	0	84,624
TOTAL ASSETS	\$ 5,072	\$ 2,815	\$ 114,447	\$ 2,186	\$ 124,520

LIABILITIES & FUND BALANCES

LIABILITIES					
Accounts payable	\$ 4,987	\$ 135,195	\$ 114,447	\$ 0	\$ 254,629
Deferred revenue	0	0	0	0	0
TOTAL LIABILITIES	4,987	135,195	114,447	0	254,629

FUND BALANCES

Nonspendable	0	0	0	0	0
Restricted	85	(132,380)	0	2,186	(130,109)
Committed	0	0	0	0	0
Assigned	0	0	0	0	0
Unassigned	0	0	0	0	0
TOTAL FUND BALANCES	85	(132,380)	0	2,186	(130,109)
TOTAL LIABILITIES & FUND BALANCES	\$ 5,072	\$ 2,815	\$ 114,447	\$ 2,186	\$ 124,520

CITY OF LOUISA, KENTUCKY
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES-
CONSTRUCTION FUNDS
Year ended June 30, 2012

	FIVE FORKS SEWER PROJECT	WATER TREATMENT PLANT IMPROVEMENT AND WATER INTERCONNECT PROJECT	WATER-LINE RELOCATION PROJECT ROUTE 32	FIRE DEPARTMENT TRAINING CENTER	TOTAL CONSTRUCTION FUNDS
REVENUES	\$	\$	\$	\$	\$
Grant receipts-Direct Federal	0	0	0	0	0
Grant receipts-Indirect Federal	0	0	0	0	0
State Grants	79,987	0	655,549	0	735,536
Interest income	0	0	0	2	2
TOTAL REVENUE	<u>79,987</u>	<u>0</u>	<u>655,549</u>	<u>2</u>	<u>735,538</u>
EXPENDITURES					
Capital outlay					
TOTAL EXPENDITURES	<u>225,254</u>	<u>1,171,574</u>	<u>655,702</u>	<u>0</u>	<u>2,052,530</u>
	<u>225,254</u>	<u>1,171,574</u>	<u>655,702</u>	<u>0</u>	<u>2,052,530</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(145,267)</u>	<u>(1,171,574)</u>	<u>(153)</u>	<u>2</u>	<u>(1,316,992)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	145,352	1,039,194	0	0	1,184,546
Transfers in (out)	0	0	153	0	153
TOTAL OTHER FINANCING (USES)	<u>145,352</u>	<u>1,039,194</u>	<u>153</u>	<u>0</u>	<u>1,184,699</u>
EXCESS OF REVENUES & OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES & OTHER FINANCING USES	<u>85</u>	<u>(132,380)</u>	<u>0</u>	<u>2</u>	<u>(132,293)</u>
FUND BALANCE BEGINNING OF YEAR	0	0	0	2,184	2,184
PRIOR PERIOD ADJUSTMENT	0	0	0	0	0
FUND BALANCE END OF YEAR	<u>85</u>	<u>(132,380)</u>	<u>0</u>	<u>2,186</u>	<u>(130,109)</u>

CITY OF LOUISA, KENTUCKY
SCHEDULE OF EXPENDITUREES OF FEDERAL AWARDS
Year ended June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program title	<u>Federal CFDA Number</u>	<u>Pass-thru Grantor's Number</u>	<u>Federal Expenditures</u>
Indirect Programs			
Environmental Protection Agency Office of Water Passed through Kentucky Infrastructure Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	F10-03	\$ <u>637,283</u>
TOTAL ENVIROMENTAL PROTECTION AGENCY			<u>637,283</u>
Total Pass Through Programs			<u>637,283</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 637,283</u>

CITY OF LOUISA, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended JUNE 30, 2012

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.

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

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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, 2012, which collectively comprise the City of Louisa, Kentucky's basic financial statements and have issued our report thereon dated November 7, 2013. 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

Management of the City of Louisa, Kentucky is responsible for establishing and maintaining effective 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.

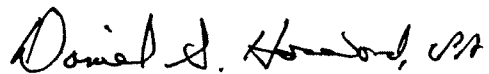
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 12-01 and 12-02 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 12-03 and 12-04.

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.



November 07, 2013

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, 2012. 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, 2012.

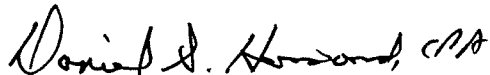
Internal Control Over Compliance

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 A. Howard, CPA

November 07, 2013

CITY OF LOUISA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section 1: Summary of Auditor's Results

1. An 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 12-01 and 12-02 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 12-03 and 12-04.
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 program tested as a major program was: Capitalization Grants for Drinking Water-State Revolving Funds: CFDA number 66.468
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: Audit Findings On Compliance And Internal Control Over Financial Reporting In Accordance With Government Auditing Standards.

Finding 12-01: Accounting Errors

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: General ledger not being reviewed and compared to subsidiary records.

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 QUESTIONED COSTS-CONTINUED
Year ended June 30, 2012

Finding 12-02: 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 12-03: Requirements of KRS 424.220 pertaining to required publications

Condition: Financial statements for the year ended 06/30/12 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 will make every effort to comply with this requirement in the future.

CITY OF LOUISA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year ended June 30, 2012

Finding 12-04: Bid Requirements Not Followed

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 Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

No new findings.

CITY OF LOUISA
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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.

