

**TOWN OF LOUISVILLE, TENNESSEE**

**ANNUAL FINANCIAL REPORT**

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**ANNUAL FINANCIAL REPORT**  
 June 30, 2011 and 2010

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**TOWN OF LOUISVILLE, TENNESSEE**

SECTION ONE

INTRODUCTORY SECTION

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**SCHEDULE OF PRINCIPAL OFFICIALS AND SURETY BONDS**  
June 30, 2011 and 2010

**June 30, 2011**

**MAYOR**

Tom Bickers  
(Surety Bond Coverage - \$5,000)

**ALDERMEN**

Robert Gormley (Vice Mayor)  
Angie J. Holley  
Steve Dixon  
Joe Gallagher

**OTHER OFFICIALS**

Michael G. Long - Town Recorder  
(Surety Bond Coverage - \$5,000)

**June 30, 2010**

**MAYOR**

Geraldine Anderson  
(Surety Bond Coverage - \$5,000)

**ALDERMEN**

Robert Gormley (Vice Mayor)  
Joe Gallagher  
Steve Dixon  
Robert Tingle

**OTHER OFFICIALS**

Kathy Lovingood - Town Administrator  
(Surety Bond Coverage - \$5,000)

**TOWN OF LOUISVILLE, TENNESSEE**

**SECTION TWO**

**FINANCIAL SECTION**

**June 30, 2011 and 2010**



Joe S. Ingram, CPA (1948 – 2011)  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

428 Marilyn Lane  
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March 22, 2012

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the Board of Aldermen  
Town of Louisville  
Louisville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Louisville, Tennessee, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Louisville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits 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 audits provide 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 and the major fund of the Town of Louisville, Tennessee, as of June 30, 2011 and 2010, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the fiscal years 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 our report dated March 22, 2012, on our consideration of the Town of Louisville, Tennessee'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 8 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, other supplemental information and miscellaneous schedules as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, other supplemental information and miscellaneous schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ingram, Overholt & Bean, PC*



# Town of Louisville

P.O. Box 215, Louisville, Tennessee 37777

Phone: 865-681-1983, Fax: 865-681-5541

Tom Bickers, Mayor  
Robert Gormley, Vice Mayor  
Michael Long, Recorder

Angie Holley, Alderman  
Steve Dixon, Alderman  
Joe Gallagher, Alderman

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Louisville's (the Town) Annual Financial Report presents a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011 and 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal.

### FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$3,557,209 (net assets). Of this amount, \$1,169,461 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ At June 30, 2011 and 2010, the Town's governmental funds reported combined ending fund balances of \$1,337,990 and \$1,645,159, respectively. At June 30, 2011 approximately 87% of this total amount, or \$1,169,461, is unassigned fund balance available for spending at the government's discretion. Unassigned fund balance at June 30, 2010 was \$619,703. \$701,537 was assigned to balance the June 30, 2011 budget.
- ◆ At June 30, 2011 and 2010, total assigned and unassigned fund balance for the general fund was \$1,169,461 and \$1,321,240, respectively. These amounts were 120% and 245% of total general fund expenditures.
- ◆ The Town issued no new general obligation debt during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains **other supplementary information** in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Town is improving or deteriorating.

The **statement of activities** presents information showing how the Town's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include highways and streets, parks and recreation, and general government.

### **Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are reported in governmental funds. These statements, however, focus on near term inflows and outflows of spendable resources and spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains one individual governmental fund organized according to its type (general fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund (major fund).

The Town adopts an annual appropriated budget for the general fund. Budgetary comparison statements have been provided in the basic financial statements for the general fund to demonstrate compliance with the budget.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE STATEMENTS FINANCIAL ANALYSIS

The Town presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.

<u>Assets</u>	<u>Net Assets</u> <u>Governmental Activities</u>		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current and other assets	\$ 1,350,150	\$ 1,832,073	\$ 1,524,395
Capital assets, net	<u>2,219,219</u>	<u>1,577,577</u>	<u>1,345,766</u>
<b>Total Assets</b>	<b><u>3,569,369</u></b>	<b><u>3,409,650</u></b>	<b><u>2,870,161</u></b>
 <b><u>Liabilities</u></b>			
Long-term liabilities	-	-	-
Other liabilities	<u>12,160</u>	<u>186,914</u>	<u>3,003</u>
<b>Total Liabilities</b>	<b><u>12,160</u></b>	<b><u>186,914</u></b>	<b><u>3,003</u></b>
 <b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	2,219,219	1,402,011	1,345,766
Restricted for State Street Aid	168,529	110,777	54,459
Restricted for Town Hall construction	-	213,142	127,987
Unrestricted	<u>1,169,461</u>	<u>1,496,806</u>	<u>1,338,946</u>
<b>Total Net Assets</b>	<b><u>\$ 3,557,209</u></b>	<b><u>\$ 3,222,736</u></b>	<b><u>\$ 2,867,158</u></b>

The Town’s net assets increased by \$334,473 during the fiscal year ended June 30, 2011 and increased by \$355,578 during the fiscal year ended June 30, 2010. These increases are explained in the governmental activities discussion below.

<u>Revenues</u>	<u>Changes in Net Assets</u> <u>Governmental Activities</u>		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Program Revenues:			
Charges for services	\$ 51,520	\$ 55,952	\$ 51,380
Operating grants and contributions	57,752	56,321	55,705
Capital grants and Contributions	110,436	86,835	128,001
General Revenues:			
Sales taxes	286,322	270,686	267,041
State income taxes	48,333	89,737	106,284
Miscellaneous taxes	97,911	94,004	110,364
Other	<u>14,102</u>	<u>10,064</u>	<u>19,160</u>
<b>Total Revenues</b>	<b><u>666,376</u></b>	<b><u>663,599</u></b>	<b><u>737,935</u></b>
 <b><u>Expenses</u></b>			
General government	\$ 150,564	\$ 112,459	\$ 77,058
Fire	49,600	49,600	49,600
Public works and streets	95,423	102,361	93,834
Recreation	<u>36,316</u>	<u>43,601</u>	<u>33,766</u>
<b>Total expenses</b>	<b><u>331,903</u></b>	<b><u>308,021</u></b>	<b><u>254,258</u></b>
<b>Change in Net Assets</b>	<b>334,473</b>	<b>355,578</b>	<b>483,677</b>
Net Assets at Beginning of Year	<u>3,222,736</u>	<u>2,867,158</u>	<u>2,383,481</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 3,557,209</u></b>	<b><u>\$ 3,222,736</u></b>	<b><u>\$ 2,867,158</u></b>

## FUND STATEMENTS FINANCIAL ANALYSIS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Governmental funds consist of the General Fund.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$1,169,461 (the restricted portion equaled \$168,529), while total fund balance was \$1,337,990. As a measure of the General Fund's liquidity, it may be useful to compare both total unassigned fund balance and total fund balance to total fund expenditures. Total unassigned fund balance represents 120% total general fund expenditures of \$973,545, while total fund balance represents 137% of that same amount.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Town's capital assets for its governmental and business type activities as of June 30, 2011 and 2010 amount to \$2,219,219 and \$1,577,577 (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The table below reflects the capital assets at the end of the fiscal year:

	<b>Capital Assets, Net of Depreciation</b>		
	<b>Governmental Activities</b>		
	<b><u>June 30, 2011</u></b>	<b><u>June 30, 2010</u></b>	<b><u>June 30, 2009</u></b>
Land	\$ 749,051	\$ 749,051	\$ 749,051
Buildings	1,537,074	574,130	574,130
Improvements	37,976	29,686	29,686
Machinery and equipment	359,384	347,342	344,993
Construction in progress	-	<u>293,128</u>	<u>12,350</u>
Total Capital Assets	2,683,485	1,993,337	1,710,210
Less: Accumulated Depreciation	<u>(464,266)</u>	<u>(415,760)</u>	<u>(364,444)</u>
<b>Capital Assets, net of depreciation</b>	<b><u>\$ 2,219,219</u></b>	<b><u>\$ 1,577,577</u></b>	<b><u>\$ 1,345,766</u></b>

Major capital asset additions include the completion of the new town hall during the fiscal year ended June 30, 2011 at a cost of \$962,944.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to the Notes to the Financial Statements for further information regarding capital assets.

### Debt Administration

At the end of the current fiscal year, the Town had no outstanding total long-term obligations. The Town issued no new debt during the current fiscal year.

## **OTHER MATTERS**

The final budget for the fiscal year ended June 30, 2011 and 2010 was \$1,285,635 and \$1,481,270, including provisions for capital asset additions of \$865,000 and \$1,000,000, respectively. The budget was amended during the fiscal year ended June 30, 2011 decreasing the total budget by \$215,610. There were no budget amendments during the year ended June 30, 2010.

The preliminary budget for the Town of Louisville for the fiscal year beginning July 1, 2011 and ending June 30, 2012 totals \$514,000, which represents a 60% decrease over last year's final budget of \$1,285,635. The decrease is attributable to the reduction in capital expenditures planned for the fiscal year ending June 30, 2012.

The fiscal 2012 budget will provide the excellent services that the citizens of Louisville have grown accustomed to receiving. This level of service is directly attributable to the Town's well-trained and dedicated workforce coupled with the support of a progressive Town Commission.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, city commissioners, customers, investors, and creditors with a general overview of the Town's finances. If you have any questions about this report or need additional information, contact:

Town of Louisville, Tennessee  
P. O. Box 215  
Louisville, TN 37777  
(865) 681-1983

**TOWN OF LOUISVILLE, TENNESSEE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
June 30, 2011 and 2010

<u>ASSETS</u>	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash in bank .....	\$ 1,293,289	\$ 1,776,882
Accounts receivable .....	54,458	52,396
Interest receivable .....	2,403	2,795
Total Current Assets.....	1,350,150	1,832,073
Capital Assets:		
Non depreciable .....	749,051	1,042,179
Depreciable, net of accumulated depreciation .....	1,470,168	535,398
Total Capital Assets .....	2,219,219	1,577,577
<b>Total Assets .....</b>	<b>\$ 3,569,369</b>	<b>\$ 3,409,650</b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>  		
Liabilities:		
Current Liabilities:		
Accounts payable – trade.....	\$ 11,260	\$ 5,871
Accounts payable – construction costs for town hall.....	-	175,566
Accrued payroll and other taxes.....	900	5,477
Total Current Liabilities.....	12,160	186,914
Net Assets:		
Invested in capital assets, net of related debt.....	2,219,219	1,402,011
Restricted.....	168,529	323,919
Unrestricted.....	1,169,461	1,496,806
Total Net Assets.....	3,557,209	3,222,736
<b>Total Liabilities and Net Assets .....</b>	<b>\$ 3,569,369</b>	<b>\$ 3,409,650</b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

		<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</b>
	<b><u>Expenses</u></b>	<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>		
Function/Programs						
Governmental Activities:						
General Government .....	\$ 150,564	\$ 26,725	\$ -	\$ 110,436		\$ (13,403)
Public Safety .....	49,600	-	-	-		(49,600)
Public Works and Streets.....	95,423	-	57,752	-		(37,671)
Recreation.....	36,316	24,795	-	-		(11,521)
	<b><u>\$ 331,903</u></b>	<b><u>\$ 51,520</u></b>	<b><u>\$ 57,752</u></b>	<b><u>\$ 110,436</u></b>		<b><u>(112,195)</u></b>
General Revenues:						
Sales Tax .....						286,322
State income taxes and excise taxes .....						48,333
Miscellaneous taxes .....						97,911
Interest earned.....						13,487
Miscellaneous .....						<u>615</u>
Total General Revenues .....						<u>446,668</u>
Changes in Net Assets.....						334,473
Net Assets – Beginning.....						<u>3,222,736</u>
<b>Net Assets – Ending.....</b>						<b><u>\$ 3,557,209</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

		<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</b>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Function/Programs						
Governmental Activities:						
General Government .....	\$ 112,459	\$ 21,654	\$ -	\$ 86,835	\$	(3,970)
Public Safety .....	49,600	-	-	-	-	(49,600)
Public Works and Streets.....	102,361	-	56,321	-	-	(46,040)
Recreation.....	43,601	34,298	-	-	-	(9,303)
	<u>\$ 308,021</u>	<u>\$ 55,952</u>	<u>\$ 56,321</u>	<u>\$ 86,835</u>	<u>\$</u>	<u>(108,913)</u>
General Revenues:						
Sales Tax .....						270,686
State income taxes and excise taxes .....						89,737
Miscellaneous taxes .....						94,004
Interest earned.....						9,724
Miscellaneous .....						340
Total General Revenues .....						<u>464,491</u>
Changes in Net Assets.....						355,578
Net Assets – Beginning.....						<u>2,867,158</u>
<b>Net Assets – Ending.....</b>						<u><b>\$ 3,222,736</b></u>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**

**FUND FINANCIAL STATEMENTS**

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
June 30, 2011 and 2010

<b>ASSETS</b>	<b>General Fund</b>	
	<b>2011</b>	<b>2010</b>
Cash in bank .....	\$ 1,293,289	\$ 1,776,882
Accounts receivable .....	54,458	52,396
Interest receivable .....	2,403	2,795
<b>Total Assets .....</b>	<b>\$ 1,350,150</b>	<b>\$ 1,832,073</b>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable – trade .....	11,260	5,871
Accounts payable – construction costs for town hall .....	-	175,566
Accrued payroll and other taxes.....	900	5,477
<b>Total Liabilities.....</b>	<b>12,160</b>	<b>186,914</b>
Fund Balance:		
Restricted for State Street Aid .....	168,529	110,777
Restricted for Town Hall .....	-	213,142
Assigned for general government (amount needed to balance subsequent year's budget).....	-	701,537
Unassigned .....	1,169,461	619,703
<b>Total Fund Balance.....</b>	<b>1,337,990</b>	<b>1,645,159</b>
<b>Total Liabilities and Fund Balance .....</b>	<b>\$ 1,350,150</b>	<b>\$ 1,832,073</b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Fund balances – total governmental funds .....	\$ 1,337,990	\$ 1,645,159
<p style="margin-left: 40px;">Amounts reported for the governmental activities in the  statement of net assets are different because:</p>		
Capital assets, used in governmental activities are not financial resources and, therefore, are not reported in the funds. ....	2,219,219	1,577,577
<b>Net assets of governmental activities .....</b>	<b><u>\$ 3,557,209</u></b>	<b><u>\$ 3,222,736</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENT FUNDS**  
For the Fiscal Years Ended June 30, 2011 and 2010

	<b>General Fund</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Revenues:</b>		
Taxes.....	\$ 213,502	\$ 200,678
Licenses and permits .....	24,035	21,654
Recreation .....	24,795	34,298
Intergovernmental .....	276,816	310,070
Interest earned .....	13,487	9,724
Donations .....	110,436	86,835
Other revenues .....	3,305	340
Total Revenues .....	666,376	663,599
<b>Expenditures:</b>		
General government:		
Legislative.....	838	3,023
Board of Aldermen Special Projects.....	-	8
Financial Administration .....	69,989	54,058
Planning & Zoning .....	6,800	6,858
Town Hall Building .....	13,599	8,740
Other General Government .....	30,709	35,425
Public Safety .....	49,600	49,600
Highways & Streets .....	71,775	69,263
Recreation .....	33,514	41,421
Capital Expenditures.....	696,721	271,437
Total Expenditures.....	973,545	539,833
Net Change in Fund Balance .....	(307,169)	123,766
Fund Balance – July 1 <sup>st</sup> .....	1,645,159	1,521,393
<b>Fund Balance – June 30<sup>th</sup> .....</b>	<b>\$ 1,337,990</b>	<b>\$ 1,645,159</b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the Years Ended June 30, 2011 and 2010

	<u><b>2011</b></u>	<u><b>2010</b></u>
Net change in fund balances – total governmental fund .....	\$ (307,169)	\$ 123,766
<p>Amounts reported for the governmental activities in the  statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures.  However, in the statement of activities the cost of those assets  is allocated over their estimated useful lives and reported as  depreciation expense. This is the amount by which capital  outlays exceeded depreciation in the current period. ....</p>		
	<u>641,642</u>	<u>231,812</u>
<b>Changes in net assets of governmental activities .....</b>	<u><b>\$ 334,473</b></u>	<u><b>\$ 355,578</b></u>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**

GENERAL FUND

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**BALANCE SHEET**  
June 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash .....	\$ 1,293,289	\$ 1,776,882
Accounts receivable .....	54,458	52,396
Interest receivable .....	<u>2,403</u>	<u>2,795</u>
<b>Total Assets .....</b>	<b><u>\$ 1,350,150</u></b>	<b><u>\$ 1,832,073</u></b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>  		
LIABILITIES:		
Accounts payable .....	\$ 11,260	\$ 181,437
Accrued payroll and other taxes.....	<u>900</u>	<u>5,477</u>
Total Liabilities.....	<u>12,160</u>	<u>186,914</u>
FUND BALANCE:		
Restricted for State Street Aid .....	168,529	110,777
Restricted for Town Hall .....	-	213,142
Assigned for General Government.....	-	701,537
Unassigned.....	<u>1,169,461</u>	<u>619,703</u>
Total Fund Balance.....	<u>1,337,990</u>	<u>1,645,159</u>
<b>Total Liabilities and Fund Balance .....</b>	<b><u>\$ 1,350,150</u></b>	<b><u>\$ 1,832,073</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2011

	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance – Favorable (Unfavorable)</u></b>
<b>REVENUES:</b>				
<b>TAXES:</b>				
Local sales tax.....	\$ 110,000	\$ 110,000	145,091	35,091
Wholesale beer tax.....	51,000	40,000	43,835	3,835
Cable TV franchise tax.....	<u>16,500</u>	<u>24,000</u>	<u>24,576</u>	<u>576</u>
Total Taxes.....	<u>177,500</u>	<u>174,000</u>	<u>213,502</u>	<u>39,502</u>
 <b>LICENSE AND PERMITS.....</b>	 <u>19,700</u>	 <u>22,300</u>	 <u>24,035</u>	 <u>1,735</u>
 <b>INTERGOVERNMENTAL:</b>				
State sales tax allocation.....	125,000	125,000	141,231	16,231
State beer tax allocation .....	750	1,100	1,105	5
State Street Aid.....	55,000	51,000	57,752	6,752
State gasoline inspection fee.....	4,500	4,200	4,548	348
TVA in lieu allocation.....	22,000	22,000	23,847	1,847
State income tax allocation.....	<u>75,000</u>	<u>48,333</u>	<u>48,333</u>	<u>-</u>
Total Intergovernmental.....	<u>282,250</u>	<u>251,633</u>	<u>276,816</u>	<u>25,183</u>
 <b>OTHER:</b>				
Interest Earned.....	13,600	11,165	13,487	2,322
Recreation.....	38,400	22,500	24,795	2,295
Donations.....	100,000	100,000	110,436	10,436
Community room rental .....	-	2,000	2,690	690
Miscellaneous .....	<u>670</u>	<u>500</u>	<u>615</u>	<u>115</u>
Total Other .....	<u>152,670</u>	<u>136,165</u>	<u>152,023</u>	<u>15,858</u>
 TOTAL REVENUES .....	 <u>632,120</u>	 <u>584,098</u>	 <u>666,376</u>	 <u>82,278</u>
 <b>EXPENDITURES:</b>				
<b>GENERAL GOVERNMENT:</b>				
<b>Legislative:</b>				
Membership dues – TML.....	<u>5,700</u>	<u>1,000</u>	<u>838</u>	<u>162</u>

(Continued)

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance – Favorable (Unfavorable)
<b>EXPENDITURES (Continued):</b>				
<b>GENERAL GOVERNMENT (Continued):</b>				
<b>Board of Aldermen Special Project....</b>	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
<b>Financial Administration:</b>				
Salaries .....	40,000	40,000	38,655	1,345
Legal notice publications.....	600	600	596	4
Telephone .....	5,000	5,000	3,863	1,137
Publicity, dues and subscriptions .....	5,000	5,000	3,863	1,137
Equipment repairs and contract maintenance .....	200	200	176	24
Utilities .....	12,000	12,000	10,794	1,206
Office supplies .....	8,500	8,500	6,762	1,738
Professional services .....	<u>6,000</u>	<u>6,000</u>	<u>5,280</u>	<u>720</u>
Total Financial Administration ....	<u>77,300</u>	<u>77,300</u>	<u>69,989</u>	<u>7,311</u>
<b>Town Hall Building:</b>				
Electricity .....	12,000	12,000	8,450	3,550
Water .....	1,000	1,000	629	371
Telephone .....	600	600	223	377
Cleaning supplies .....	2,500	2,500	1,969	531
Machinery and equipment .....	10,000	10,000	855	9,145
Repairs and Maintenance .....	<u>16,660</u>	<u>16,660</u>	<u>1,473</u>	<u>15,187</u>
Total Town Hall Building.....	<u>42,760</u>	<u>42,760</u>	<u>13,599</u>	<u>29,161</u>
<b>Other General Government:</b>				
OASI – Employer’s share.....	9,500	9,500	7,865	1,635
Unemployment insurance.....	500	500	262	238
Legal services .....	10,000	10,000	11,165	(1,165)
Accounting and auditing services .....	3,000	3,000	-	3,000
City Elections Contract .....	500	500	-	500
East Tennessee Development District .....	500	500	320	180
Insurance .....	11,850	11,850	10,974	876
Surety bonds .....	<u>200</u>	<u>200</u>	<u>123</u>	<u>77</u>
Total Other General Government.....	<u>36,050</u>	<u>36,050</u>	<u>30,709</u>	<u>5,341</u>
<b>Public Safety:</b>				
Animal control.....	20,000	5,000	-	5,000
Fire services.....	<u>57,000</u>	<u>57,000</u>	<u>49,600</u>	<u>7,400</u>
Total Public Safety .....	<u>77,000</u>	<u>62,000</u>	<u>49,600</u>	<u>12,400</u>

(Continued)

See accompanying independent auditors’ report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance – Favorable (Unfavorable)</b>
<b>EXPENDITURES (Continued):</b>				
<b>GENERAL GOVERNMENT (Continued):</b>				
<b>Highways and Streets:</b>				
Wages – Regular .....	35,000	28,000	26,068	1,932
Wages – Part-time .....	35,000	28,000	28,388	(388)
Contract paving .....	40,000	-	-	-
Gas and oil .....	9,000	9,000	8,439	561
Vehicle maintenance and repairs .....	2,000	2,000	1,599	401
Other repairs and maintenance .....	2,000	2,000	1,657	343
Sign parts and supplies .....	1,200	1,000	858	142
Materials .....	5,000	4,500	4,522	(22)
Machinery and equipment .....	7,000	-	-	-
Utilities .....	335	500	244	256
Total Highways and Streets .....	<u>136,535</u>	<u>75,000</u>	<u>71,775</u>	<u>3,225</u>
<b>State Street Aid:</b>				
Contract paving .....	<u>130,000</u>	<u>66,525</u>	<u>-</u>	<u>66,525</u>
<b>Planning and Zoning:</b>				
State and local planning .....	<u>7,500</u>	<u>7,500</u>	<u>6,800</u>	<u>700</u>
<b>Other:</b>				
Recreation .....	<u>38,400</u>	<u>47,500</u>	<u>33,514</u>	<u>13,986</u>
<b>CAPITAL EXPENDITURES:</b>				
Town Hall .....	865,000	865,000	680,390	184,610
Recreation .....	50,000	-	4,290	(4,290)
Other .....	<u>30,000</u>	<u>-</u>	<u>12,041</u>	<u>(12,041)</u>
Total Capital Expenditures .....	<u>945,000</u>	<u>865,000</u>	<u>696,721</u>	<u>168,279</u>
TOTAL EXPENDITURES .....	<u>1,501,245</u>	<u>1,285,635</u>	<u>973,545</u>	<u>312,090</u>
Net Change in Fund Balance .....	(869,125)	(701,537)	(307,169)	394,368
FUND BALANCE – July 1, 2010 .....	<u>1,645,159</u>	<u>1,645,159</u>	<u>1,645,519</u>	<u>-</u>
<b>FUND BALANCE – June 30, 2011 .....</b>	<b><u>\$ 776,034</u></b>	<b><u>\$ 943,622</u></b>	<b><u>\$1,337,990</u></b>	<b><u>\$ 394,368</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2010

	<b><u>Budget Original and Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance – Favorable (Unfavorable)</u></b>
<b>REVENUES:</b>			
<b>TAXES:</b>			
Local sales tax.....	\$ 57,500	\$ 135,584	\$ 78,084
Wholesale beer tax .....	61,000	42,197	(18,803)
Cable TV franchise tax.....	<u>16,500</u>	<u>22,897</u>	<u>6,397</u>
Total Taxes .....	<u>135,000</u>	<u>200,678</u>	<u>65,678</u>
 <b>LICENSE AND PERMITS.....</b>	 <u>12,200</u>	 <u>21,654</u>	 <u>9,454</u>
 <b>INTERGOVERNMENTAL:</b>			
State sales tax allocation.....	130,000	135,102	5,102
State beer tax allocation.....	800	1,050	250
State Street Aid .....	53,500	56,321	2,821
State gasoline inspection fee.....	4,350	4,550	200
TVA in lieu allocation .....	17,000	23,310	6,310
State income tax allocation .....	<u>75,950</u>	<u>89,737</u>	<u>13,787</u>
Total Intergovernmental .....	<u>281,600</u>	<u>310,070</u>	<u>28,470</u>
 Interest Earned .....	 14,750	 9,724	 (5,026)
Recreation .....	37,050	34,298	(2,752)
Donations.....	100,000	86,835	(13,165)
Miscellaneous .....	<u>670</u>	<u>340</u>	<u>(330)</u>
Total Other .....	<u>152,470</u>	<u>131,197</u>	<u>(21,273)</u>
 TOTAL REVENUES .....	 <u>581,270</u>	 <u>663,599</u>	 <u>82,329</u>
 <b>EXPENDITURES:</b>			
<b>GENERAL GOVERNMENT:</b>			
<b>Legislative:</b>			
MTAS codification service .....	4,000	1,985	2,015
Membership dues – TML.....	1,200	838	362
Public relations .....	<u>500</u>	<u>200</u>	<u>300</u>
Total Legislative.....	<u>5,700</u>	<u>3,023</u>	<u>2,677</u>
 <b>Board of Aldermen Special Projects....</b>	 <u>5,000</u>	 <u>8</u>	 <u>4,992</u>

(Continued)

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2010

	<b><u>Budget</u></b> <b><u>Original</u></b> <b><u>and Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance –</u></b> <b><u>Favorable</u></b> <b><u>(Unfavorable)</u></b>
<b>EXPENDITURES (Continued):</b>			
<b>GENERAL GOVERNMENT (Continued):</b>			
<b>Financial Administration:</b>			
Salaries .....	66,600	41,492	25,108
Legal notice publications.....	1,100	1,545	(445)
Professional services .....	-	732	(732)
Telephone .....	1,000	2,199	(1,199)
Publicity, dues and subscriptions .....	1,800	1,425	375
Communications committee .....	5,000	3,067	1,933
Training .....	1,500	-	1,500
Office supplies .....	1,800	2,539	(739)
Office equipment .....	<u>2,500</u>	<u>1,059</u>	<u>1,441</u>
Total Financial Administration .....	<u>81,300</u>	<u>54,058</u>	<u>27,242</u>
<b>Town Hall Building:</b>			
Electricity .....	9,400	6,021	3,379
Water .....	660	832	(172)
Cleaning supplies .....	1,200	1,419	(219)
Machinery and equipment .....	5,000	468	4,532
Other operating .....	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total Town Hall Building.....	<u>36,260</u>	<u>8,740</u>	<u>27,520</u>
<b>Other General Government:</b>			
OASI – Employer’s share.....	7,550	7,883	(333)
Unemployment insurance.....	600	254	346
Legal services .....	6,000	14,755	(8,755)
Accounting and auditing services .....	2,400	2,350	50
City Elections Contract .....	1,500	-	1,500
East Tennessee Development			
District .....	350	320	30
Insurance .....	12,500	9,740	2,760
Surety bonds .....	<u>150</u>	<u>123</u>	<u>27</u>
Total Other General			
Government.....	<u>31,050</u>	<u>35,425</u>	<u>(4,375)</u>
<b>Public Safety:</b>			
Animal control .....	20,000	-	20,000
Hydrant maintenance .....	1,000	-	1,000
Fire services .....	<u>56,000</u>	<u>49,600</u>	<u>6,400</u>
Total Public Safety .....	<u>77,000</u>	<u>49,600</u>	<u>27,400</u>

(Continued)

See accompanying independent auditors’ report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2010

	<b><u>Budget Original and Final</u></b>	<b><u>Actual</u></b>	<b>Variance – Favorable (Unfavorable)</b>
<b>EXPENDITURES (Continued):</b>			
<b>GENERAL GOVERNMENT (Continued):</b>			
<b>Highways and Streets:</b>			
Wages – Regular .....	30,900	24,842	6,058
Wages – Part-time .....	29,225	21,621	7,604
Contract paving .....	13,910	-	13,910
Gas and oil .....	11,200	7,391	3,809
Vehicle maintenance and repairs.....	4,500	9,824	(5,324)
Other repairs and maintenance.....	2,000	1,313	687
Sign parts and supplies .....	3,000	350	2,650
Materials .....	2,950	1,331	1,619
Machinery and equipment.....	10,000	2,349	7,651
Utilities .....	<u>350</u>	<u>242</u>	<u>108</u>
Total Highways and Streets .....	<u>108,035</u>	<u>69,263</u>	<u>38,772</u>
<b>State Street Aid:</b>			
Contract paving .....	<u>63,475</u>	<u>-</u>	<u>63,475</u>
<b>Planning and Zoning:</b>			
State and local planning.....	7,000	6,750	250
Building inspector .....	9,000	108	8,892
Publicity, dues and subscriptions .....	150	-	150
Office supplies .....	150	-	150
Operating supplies .....	<u>100</u>	<u>-</u>	<u>100</u>
Total Planning and Zoning .....	<u>16,400</u>	<u>6,858</u>	<u>9,542</u>
<b>Other:</b>			
Recreation .....	<u>57,050</u>	<u>41,421</u>	<u>15,629</u>
<b>Capital Outlay:</b>			
Town Hall .....	<u>1,000,000</u>	<u>271,437</u>	<u>728,563</u>
TOTAL EXPENDITURES.....	<u>1,481,270</u>	<u>539,833</u>	<u>941,437</u>
Net Change in Fund Balance.....	(900,000)	123,766	1,023,766
FUND BALANCE – July 1, 2009.....	<u>1,521,393</u>	<u>1,521,393</u>	<u>-</u>
<b>FUND BALANCE – June 30, 2010 .....</b>	<b><u>\$ 621,393</u></b>	<b><u>\$ 1,645,159</u></b>	<b><u>\$ 1,023,766</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

(A) **DEFINITION OF REPORTING ENTITY:**

The Town of Louisville, Tennessee, was incorporated under the laws of the State of Tennessee under Public Chapter 154 in 1991, and operates under an elected Mayor-Aldermen form of government. All funds under the control, authority, or oversight of the Town's governing body (Board of Aldermen) are included in these financial statements.

(B) **FINANCIAL REPORTING ENTITY:**

The accompanying financial statements present the Town of Louisville (primary government) and all funds, organizations, agencies, and offices that are a part of the primary government. The criteria for determining a primary government consist of the following:

- (1) A separately elected governing body
- (2) Separate legal standing – corporate power with the capacity to have a name; the right to sue and be sued in its own name without recourse to a state or local governmental unit; and, the right to buy, sell, lease, or mortgage property in its own name.
- (3) Fiscal independence of other state and local governments by determining its budget, levying taxes, setting rates or charges, and issuing bonded debt without approval by another government.

Based on applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement 14 – “The Financial Reporting Entity”, as amended by GASB Statement 39 – “Determining Whether Certain Organizations are Component Units”, there are no potential component units for inclusion in the primary government. The financial reporting entity includes all funds, agencies, offices and departments which are a part of the primary government.

(C) **BASIC FINANCIAL STATEMENTS – GASB NO. 34:**

The basic financial statements include both government-wide (based on the Town as a whole and its component units) and fund financial statements. Both the government-wide and fund financial statements categorize the Town's activities as governmental activities. *Governmental activities* are normally supported by taxes and intergovernmental revenues. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term obligations. The government-wide financial statements focus more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(C) BASIC FINANCIAL STATEMENTS – GASB NO. 34 (Continued):

The government-wide Statement of Activities demonstrates the degree to which the direct expenses, including depreciation, of the various departments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department. Interest on general long-term debt and depreciation expense on assets shared by multiple departments, are not allocated to the various departments. Program revenues include revenues from fines and forfeitures, licenses and permit fees, special assessment taxes, certain intergovernmental grants, other entities participation and charges for services. Taxes and other items not properly included among program revenues are reported as general revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Town does not currently utilize an indirect cost allocation system. The General Fund charges certain administrative fees to departments within other operating funds to support general services used by those funds. The expenditures/expenses are recorded as a reduction of expense in the allocating fund. Therefore, no elimination is required from either the government-wide or fund level financial statements. There are no non-major funds.

(D) BASIS OF PRESENTATION:

The Town uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid in the Town's financial management by segregating transactions related to certain functions or activities.

The following fund categories are used by the Town:

GOVERNMENTAL FUNDS: All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Sales taxes are considered "measurable" (susceptible to accrual) when in the hands of intermediary collecting agencies and are recognized as revenues at that time. All other intergovernmental revenues are recorded as revenue when received. Expenditures are recognized when the related fund liability is incurred.

GENERAL FUND: The General Fund is established to account for resources devoted to financing the general services that the Town performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Town are included in this fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund in the basic financial statements.

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(E) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the source and use of liquid resources, and 3) demonstrate how the Town's actual experience conforms to the biennial budget. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" is defined as collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Revenues susceptible to accrual include local sales tax, state-shared sales tax, highway user tax, vehicle license tax, franchise fees, special assessments and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are generally recorded as revenues when received in cash because they are not measurable until actually received. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for a specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Town reports deferred revenues in the governmental funds if the potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Since the governmental fund financial statements are presented on a basis different than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(E) **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING(Continued):**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenue include 1) charges to customers or users who purchase, use or directly benefit from goods or services provided by a particular department 2) operating grants and contributions that are restricted. Taxes, investment income and other revenues not identifiable with a particular department, are included as general revenues. The general revenues support the net costs of the departments not covered by the program revenues.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

(F) **GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 34:**

The Town utilizes the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. This statement affects the manner in which the Town records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

***Management's Discussion and Analysis*** – The financial statements are accompanied by a narrative introduction and analytical overview of the Town's financial activities in the form of "management's discussion and analysis" (MD&A).

***Government-Wide Financial Statements*** – The reporting model includes financial statements prepared using full accrual accounting for all of the Town's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

***Statement of Net Assets*** – The statement of net assets is designed to display the financial position of the primary government (government and business-type activities). The Town now reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of "using up" capital assets – in the statement of activities. The net assets of the Town are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

***Statement of Activities*** – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Town's functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the Town has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(G) BUDGETARY DATA:

Formal budgetary accounting is employed as a management control for the General Fund of the Town of Louisville, Tennessee. Annual operating budgets are adopted each fiscal year through passage of a budget ordinance, and amended as required using the same basis of accounting to reflect actual revenues and expenditures recognized in accordance with generally accepted accounting principles. The legal level of budgetary control is by function. All unencumbered budget appropriations lapse at the end of each fiscal year.

(H) FUND BALANCES:

Governmental fund equity is classified as fund balance. During the year ended June 30, 2010, the Town implemented Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance and Government Fund Type Definitions. Under this statement fund balances are classified into the following categories:

- a. Nonspendable fund balances comprise those amounts that are legally or contractually required to be maintained intact.
- b. Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitutional provisions or enabling legislation.
- c. Committed fund balances comprise those amounts constrained by the government itself using its highest level of governing body (Board of Aldermen) using its highest level of authority (ordinance).
- d. Assigned fund balances are amounts intended to be used for a specific purpose by the governing body through action other than the highest level of authority or an official expressly authorized by the governing body. This amount can also include amounts needed to balance the next year's budget when the budget is approved by ordinance.
- e. Unassigned fund balances are any amounts other than those described above and are available for any purpose.

The Town has no formal policy with regard to classifying expenditures among the various classifications. Thus, the default provision under GASB Statement 54 apply expenditures first to restricted resources, then to committed resources, then to assigned resources, and finally to unassigned resources. No Town official is granted the authority to assign fund balance. In addition, the Town has no formal policy with regard to stabilization funds.

Fund Balances at June 30, 2009 have been restated to conform to GASB Statement 54.

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(I) USE OF ESTIMATES:

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

**NOTE 2 – SERVICE AGREEMENT:**

Fire Protection Service Agreement:

Effective July 1, 1992, the Town of Louisville, Tennessee, entered into an agreement with the Blount County Fire Protection Unit (Fire Department) to provide a fire truck to protect the residences within the Town. The Fire Department has trained and equipped up to eight (8) volunteers for the fire protection service. The Town provides housing for the truck in the Town Hall facilities. The perpetual agreement is binding on both parties for as long as either of them exists, or until the Town undertakes to provide its own fire protection.

**NOTE 3 – CASH:**

In order to provide a safe temporary medium for investments of idle funds, municipalities are authorized by TCA 6-56-106 to invest in the following:

- (1) Bonds, notes, or treasury bills of the United States;
- (2) Non-convertible debt securities of certain issuers;
- (3) Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
- (4) Certificates of Deposit at state and federal chartered banks and savings and loan associations;
- (5) Obligations of the United States or its agencies under a repurchase agreement if approved as an authorized investment by the State Director of Local Finance;
- (6) Money market funds whose portfolios consist of any of the foregoing investments if approved as an authorized investment by the State Director of Local Finance; and
- (7) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

The Town has no legal restrictions governing cash deposits with financial institutions.

Custodial Credit Risk – The Town has no formal policy regarding custodial credit risk. However, cash and investments include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee State Bank Collateral Pool.

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 – CASH (Continued):**

Total cash with a carrying value of \$1,293,289 and \$1,776,882 at June 30, 2011 and 2010, is summarized as follows:

<u>Description</u>	<u>Balance</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash:		
Cash in checking:		
Foothills Bank and Trust...	\$ 521,037	\$ 967,687
Citizens Bank.....	2,690	-
Green Bank.....	\$ -	302,541
Certificates of Deposits:		
Foothills Bank and Trust...	117,070	-
Foothills Bank and Trust...	403,011	-
Jefferson Federal Bank.....	249,481	-
BankEast .....	-	214,944
BankEast .....	-	291,710
<b>Total Cash.....</b>	<b><u>\$1,293,289</u></b>	<b><u>\$1,776,882</u></b>

**NOTE 4 – RISK FINANCING ACTIVITIES:**

It is the policy of the Town to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, and worker's compensation. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

**NOTE 5 – RECEIVABLES:**

Receivables at June 30, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Due from:		
State of Tennessee:		
Sales tax.....	\$ 12,286	\$ 11,432
State Street Aid .....	5,221	5,439
State Gas Inspection Fee.....	379	379
Others:		
Wholesale beer tax .....	5,369	4,368
Local sales tax.....	24,931	24,728
Cable TV franchise tax .....	6,070	5,986
Other .....	202	64
<b>Total .....</b>	<b><u>\$ 54,458</u></b>	<b><u>\$ 52,396</u></b>

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 6 – CAPITAL ASSETS:**

Capital assets used in governmental fund type operations are stated at historical cost or the fair market value at the date of donation. Infrastructure capital assets, such as streets, bridges, lighting systems and sidewalks, have not been retroactively stated. However, all infrastructure additions and improvements acquired after July 1, 2003 are recorded.

Below is a summary of changes in Capital Assets used in Governmental Activities:

	<b><u>Balance</u></b> <b><u>July 1, 2010</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2011</u></b>
Capital Assets, non-depreciable:				
Land.....	\$ 749,051	\$ -	\$ -	\$ 749,051
Construction in progress.....	<u>293,128</u>	<u>678,105</u>	<u>(971,233)</u>	<u>-</u>
	<u>1,042,179</u>	<u>678,105</u>	<u>(971,233)</u>	<u>749,051</u>
Capital Assets, depreciable:				
Buildings.....	574,130	962,944	-	1,537,074
Improvements .....	29,686	8,290	-	37,976
Equipment and road improvements..	<u>347,342</u>	<u>12,042</u>	<u>-</u>	<u>359,384</u>
Total Capital Assets .....	951,158	983,276	-	1,934,434
Accumulated Depreciation.....	<u>(415,760)</u>	<u>(48,506)</u>	<u>-</u>	<u>(464,266)</u>
Capital Assets, net of accumulated depreciation.....	<u>535,398</u>	<u>934,770</u>	<u>-</u>	<u>1,470,168</u>
<b>Governmental Capital Assets.....</b>	<b><u>\$1,577,577</u></b>	<b><u>\$1,612,875</u></b>	<b><u>\$ (971,233)</u></b>	<b><u>\$2,219,219</u></b>
	<b><u>Balance</u></b> <b><u>July 1, 2009</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2010</u></b>
Capital Assets, non-depreciable:				
Land.....	\$ 749,051	\$ -	\$ -	\$ 749,051
Construction in progress.....	<u>12,350</u>	<u>280,778</u>	<u>-</u>	<u>293,128</u>
	<u>761,401</u>	<u>280,778</u>	<u>-</u>	<u>1,042,179</u>
Capital Assets, depreciable:				
Buildings.....	574,130	-	-	574,130
Improvements .....	29,686	-	-	29,686
Equipment and road improvements..	<u>344,993</u>	<u>2,349</u>	<u>-</u>	<u>347,342</u>
Total Capital Assets .....	948,809	2,349	-	951,158
Accumulated Depreciation.....	<u>(364,444)</u>	<u>(51,316)</u>	<u>-</u>	<u>(415,760)</u>
Capital Assets, net of accumulated depreciation.....	<u>584,365</u>	<u>(48,967)</u>	<u>-</u>	<u>535,398</u>
<b>Governmental Capital Assets.....</b>	<b><u>\$1,345,766</u></b>	<b><u>\$ 231,811</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,577,577</u></b>

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 6 – CAPITAL ASSETS (Continued):**

Depreciation expense was charged to functions/programs of the Town as follows:

	<u>2011</u>	<u>2010</u>
Governmental activities:		
General Government .....	\$ 22,056	\$ 16,038
Public works/streets.....	23,648	33,098
Recreation .....	<u>2,802</u>	<u>2,180</u>
<b>Total depreciation expense – governmental activities .....</b>	<b><u>\$ 48,506</u></b>	<b><u>\$ 51,316</u></b>

The Town uses the straight-line depreciation method for property, plant and equipment based on the following estimated useful lives by major class of depreciable s:

<u>Class</u>	
Building and Improvements .....	40-50 years
Machinery and equipment.....	4-10 years
Infrastructure.....	20-50 years

**NOTE 7 – SUBSEQUENT EVENTS:**

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is March 22, 2012, which is the date on which the financial statements were issued.

**TOWN OF LOUISVILLE, TENNESSEE**  
**OTHER SUPPLEMENTARY INFORMATION**  
June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**

**CAPITAL ASSETS USED IN THE OPERATION OF  
GOVERNMENTAL ACTIVITIES**

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
Schedule of Changes by Function and Activity  
For the Fiscal Year Ended June 30, 2011

<u>Programs</u>	<u>Balance</u> <u>7/1/10</u>	<u>CAPITAL ASSETS</u>			<u>ACCUMULATED DEPRECIATION</u>			<u>Balance</u> <u>6/30/11</u>	<u>Net Book</u> <u>Value</u>
		<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/11</u>	<u>Balance</u> <u>7/1/10</u>	<u>Additions</u>	<u>Retirements</u>		
General Government – Land	\$ 749,051	\$ -	\$ -	\$ 749,051	\$ -	\$ -	\$ -	\$ -	\$ 749,051
General Government – Building	574,130	962,944	-	1,537,074	157,884	20,372	-	178,256	1,358,818
General Government – Equipment	13,337	-	-	13,337	9,973	896	-	10,869	2,468
General Government – Improvements	7,880	-	-	7,880	4,400	788	-	5,188	2,692
General Government – Construction in Progress	293,128	678,105	971,233	-	-	-	-	-	-
Recreation – Improvements	21,806	8,290	-	30,096	11,085	2,802	-	13,887	16,209
Streets - Equipment	<u>334,005</u>	<u>12,042</u>	<u>-</u>	<u>346,047</u>	<u>232,418</u>	<u>23,648</u>	<u>-</u>	<u>256,066</u>	<u>89,981</u>
<b>Total</b>	<b><u>\$ 1,993,337</u></b>	<b><u>\$ 1,661,381</u></b>	<b><u>\$ 971,233</u></b>	<b><u>\$ 2,683,485</u></b>	<b><u>\$ 415,760</u></b>	<b><u>\$ 48,506</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 464,266</u></b>	<b><u>\$ 2,219,219</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
Schedule of Changes by Function and Activity  
For the Fiscal Year Ended June 30, 2010

<u>Programs</u>	<u>CAPITAL ASSETS</u>				<u>ACCUMULATED DEPRECIATION</u>				<u>Net Book Value</u>
	<u>Balance 7/1/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/10</u>	<u>Balance 7/1/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/11</u>	
General Government – Land	\$ 749,051	\$ -	\$ -	\$ 749,051	\$ -	\$ -	\$ -	\$ -	\$ 749,051
General Government – Building	574,130	-	-	574,130	143,531	14,353	-	157,884	416,246
General Government – Equipment	13,337	-	-	13,337	9,076	897	-	9,973	3,364
General Government – Improvements	7,880	-	-	7,880	3,612	788	-	4,400	3,480
General Government – Construction in Progress	12,350	280,778	-	293,128	-	-	-	-	293,128
Recreation – Improvements	21,806	-	-	21,806	8,905	2,180	-	11,085	10,721
Streets - Equipment	<u>331,656</u>	<u>2,349</u>	<u>-</u>	<u>334,005</u>	<u>199,320</u>	<u>33,098</u>	<u>-</u>	<u>232,418</u>	<u>101,587</u>
<b>Total</b>	<b><u>\$ 1,710,210</u></b>	<b><u>\$ 283,127</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,993,337</u></b>	<b><u>\$ 364,444</u></b>	<b><u>\$ 51,316</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 415,760</u></b>	<b><u>\$ 1,577,577</u></b>

See accompanying independent auditors' report and notes.

**TOWN OF LOUISVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
Schedule of Capital Assets by Function and Activity  
For the Fiscal Year Ended June 30, 2011

	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Total</u>
General Government – Building and Grounds.....	\$ 749,051	\$ 1,537,074	\$ 7,880	\$ -	\$2,294,005
General Government – Finance....	-	-	-	13,337	13,337
Recreation .....	-	-	30,096	-	30,096
Streets .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,047</u>	<u>346,047</u>
Total Capital Assets.....	749,051	1,537,074	37,976	359,384	2,683,485
Accumulated Depreciation.....	<u>-</u>	<u>(178,256)</u>	<u>(19,075)</u>	<u>(266,935)</u>	<u>(464,266)</u>
<b>Net Capital Assets.....</b>	<b><u>\$ 749,051</u></b>	<b><u>\$ 1,358,818</u></b>	<b><u>\$ 18,901</u></b>	<b><u>\$ 92,449</u></b>	<b><u>\$2,219,219</u></b>

Note: Buildings include construction in progress.

**TOWN OF LOUISVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
Schedule of Capital Assets by Function and Activity  
For the Fiscal Year Ended June 30, 2010

	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Total</u>
General Government – Building and Grounds.....	\$ 749,051	\$ 574,130	\$ 7,880	\$ -	\$1,331,061
General Government – Finance....	-	-	-	13,337	13,337
Recreation .....	-	-	21,806	-	21,806
Streets .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,005</u>	<u>334,005</u>
Total Capital Assets.....	749,051	574,130	29,686	347,342	1,700,209
Accumulated Depreciation.....	<u>-</u>	<u>(157,884)</u>	<u>(15,485)</u>	<u>(242,391)</u>	<u>(415,760)</u>
<b>Net Capital Assets.....</b>	<b><u>\$ 749,051</u></b>	<b><u>\$ 416,246</u></b>	<b><u>\$ 14,201</u></b>	<b><u>\$ 104,951</u></b>	<b><u>\$1,284,449</u></b>

Note: Buildings include construction in progress.

**TOWN OF LOUISVILLE, TENNESSEE**

**SECTION THREE**

**MISCELLANEOUS SCHEDULES**

June 30, 2011 and 2010

**TOWN OF LOUISVILLE, TENNESSEE**  
**SCHEDULE OF INSURANCE IN FORCE**  
June 30, 2011 and 2010

General Liability:

Liabilities created by the

Tennessee Governmental Tort Liability Act:

General - Bodily injury .....	\$300,000/700,000
General - Property damage .....	\$100,000
Automobiles - Bodily injury .....	\$300,000/700,000
Automobiles - Property damage.....	\$100,000

Liabilities for which a limit is not imposed by the

Tennessee Governmental Tort Liability Act:

Combined Single Limit.....	\$700,000
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Automobile Liability, Uninsured Motorist, and Comprehensive Coverage.....	\$500 deductible
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Fire and Extended Coverage - 90% Co-insurance:

Office building and equipment .....	\$500 deductible
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Public Officials Personal Errors and Omissions Liability:

Liability limit (\$1,000 deductible) .....	\$700,000
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Workmen's Compensation and Employer's Liability:

Workmen's Compensation.....	Statutory
Employer's Liability .....	\$300,000/700,000

**TOWN OF LOUISVILLE, TENNESSEE**

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*

June 30, 2011 and 2010



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March 22, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and  
Members of the Board of Aldermen  
Town of Louisville  
Louisville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Town of Louisville, Tennessee as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 22, 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 Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (2011-01 to 2011-04). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 questioned costs as items 2011-05 through 2011-08.

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

This report is intended solely for the information and use of the governing body, management, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Ingram, Overholt & Bean, P.C.*

**TOWN OF LOUISVILLE, TENNESSEE**  
**SCHEDULE OF FINDINGS**  
For the Years Ended June 30, 2011 and 2010

**2011-01**     **Expenditures paid from statement**

**Finding:**

Our audit testing revealed one instance in which an expenditure was paid from a statement rather than original invoices. All expenditures should be paid from original invoices. Statements should only be utilized to reconcile all invoices to the disbursements.

**Recommendation:**

We recommend that all expenditures be paid from properly approved, original invoices.

**Management's Response:**

This event occurred during a period of time the previous administration was using a formal finance committee to authorize payment of invoices. The committee was abolished upon the current administration taking office. All administrative staff and bookkeepers will increase their emphasis on compliance. The approval, payment, and review processes include at least three different staff members.

**2011-02**     **Minutes not signed**

**Finding:**

Audit procedures revealed that many instances exist in which the approved minutes were not signed in the entirety or were only signed by the presiding official or recorder, but not both.

**Recommendation:**

Once the minutes of the prior meeting are approved, the minutes should be authenticated by the signatures of the presiding official and town recorder. We recommend that the Town follow this procedure.

**Management's Response:**

We will add a second review of minutes once they are filed in our permanent records. The current Administration had also noted this failure to appropriately sign the approved minutes by the previous Administration.

**2011-03**     **Sales tax paid**

**Finding:**

The results of our testing revealed that in at least one instance sales tax was charged to the Town and was paid. The Town is exempt from paying sales tax on purchases under the authority of the regulations of the State of Tennessee.

**Recommendation:**

We recommend that all invoices be carefully reviewed to ensure that sales taxes are not paid.

**Management's Response:**

Again, we will re-emphasize this point in our approval, payment and review process. The Mayor and Recorder will increase their diligence in ensuring no sales taxes are included in the invoices being paid. The current administration has established a procedure to better enable staff to provide documentation to vendors establishing the Town's tax-exempt status.

**TOWN OF LOUISVILLE, TENNESSEE**  
SCHEDULE OF FINDINGS (Continued)  
For the Years Ended June 30, 2011 and 2010

**2011-04**      **Proper recording of disbursements for capital expenditures**

**Finding:**

In fund accounting, disbursement for capital expenditures should be recorded to an expenditure account rather than an asset account. Only in the conversion of the fund financial statements for the government-wide statements are capital expenditures recognized as assets.

**Recommendation:**

We recommend that disbursement for capital expenditures be recorded as an expenditure rather than an asset. This will allow the governing body and other officials to monitor this expenditure and compare to the approved budget

**Management's Response:**

The current Recorder will revert to our previous accounting and budgeting structure to ensure compliance. The previous Administration ignored the advice of the long-term Recorder, who resigned as a result, implemented a change that resulted in this noncompliance. The former finance committee that urged the adoption of these changes was abolished upon the current administration taking office.

**2011-05**      **Depositories of municipal funds**

**Finding:**

Tennessee Code annotated 6-4-402 decrees that depositories of municipal funds shall be designated by ordinance. The auditor noted that an ordinance was passed allowing the Town administrator to select the depositories utilized by the Town. TCA 6-4-402 does not indicate that the governing body can relinquish this responsibility to another town official. Another ordinance was passed directing that depositories would be utilized from an approved listing approved by the State of Tennessee. In addition, the listing of financial institutions participating in the State's collateral pool does not constitute the states approval for the use of the financial institution as a designated depository for the Town.

**Recommendation:**

We recommend that each depository opened be approved in a manner that adheres to TCA 6-4-402. In addition, we recommend that the ordinance identify all parties with check signing authority.

**Management's Response:**

The ordinances at issue were enacted upon the advice and recommendation of a formal finance committee. That committee was abolished upon the current administration taking office. The current ordinance listing approved depositories will be reviewed and updated to ensure compliance.

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**SCHEDULE OF FINDINGS (Continued)**  
For the Years Ended June 30, 2011 and 2010

**2011-06**      **Treasurer shall collect, receive, and receipt all funds**

**Finding:**

TCA 6-4-401 requires the Treasurer, which can be designated as the recorder, to collect, receive, and receipt all revenues. It was noted that a committee, created by the Board of Mayor and Aldermen, collected and deposited monies in an account established by that committee in the name of the Town. The TCA does not give this authority to any individual other than the treasurer.

**Recommendation:**

We recommend that TCA 6-4-401 be adhered to and that all funds should be collected, received, and receipted by the treasurer.

**Management's Response:**

This event occurred during the previous administration and, other than elected officials, all parties to the establishment of this account have been removed from all committees and staff of the Town. The committee was abolished upon the current administration taking office.

**2011-07**      **Expenditures exceeding approved budget**

**Finding:**

The Town has established that the legal level of budgetary control is at the function level. Thus, expenditures may not exceed the budget at that level.

During the fiscal year ended June 30, 2010, expenditures for "other general government" exceeded the approved budget.

TCA 6-56-203 states that no funds may be expended, regardless of their source, except in accordance with the budget ordinance adopted by the Board of Mayor and Aldermen.

**Recommendation:**

We recommend that expenditures be closely monitored and that the Town ensures that such expenditures do not exceed the budget at the legal level of budgetary control.

**Management's Response:**

Again, this situation occurred during a previous administration. All administrative staff and bookkeepers will increase their emphasis on compliance and this point will be re-emphasized to the Board.

(Continued)

**TOWN OF LOUISVILLE, TENNESSEE**  
**SCHEDULE OF FINDINGS (Continued)**  
For the Years Ended June 30, 2011 and 2010

**2011-08**      **Establish escrow account for retained amounts on contracts**

**Finding:**

Tennessee Code Annotated 66-34-104 requires that the retained amounts on all contracts for the improvement of real property that exceed \$500,000 must be deposited into a separate, interest bearing, escrow account with a third party. The Town did not comply with this section of the TCA with respect to such a contract.

**Recommendation:**

We recommend that the Town review the provisions of Tennessee Code Annotated 66-34-104 and evaluate it against any contracts for the improvement of real property that the Town might enter into. If applicable, a separate, interest bearing, escrow account with a third party should be established to deposit the retained amounts.

**Management's Response:**

The contract at issue was in place at the time the current administration took office. A payment process had been set up by a committee of the previous administration. Inquiry was made of the general contractor as to whether he desired the Town to set up a separate escrow account for the retained funds and the contractor stated because the contract was near completion, he did not desire the Town to incur the expense of setting up a separate account. All retained funds have been paid to the contractor. The provisions of TCA 66-34-104 will be reviewed with the Board and administrative staff. We will also include a requirement for review by all parties submitting bids of \$500,000 or more to the Town.