

CITY OF LAGRANGE
LaGrange, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

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City of LaGrange, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of LaGrange's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read in conjunction with the auditors' report on page 8 and the City's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The City's net assets decreased in the governmental activities and decreased in the business-type activities. The net assets of the governmental activities decreased by \$207,375, or 10.3%, and the net assets of the business-type activities decreased by \$16,441, or 0.1%.
- In the City's governmental activities, revenues decreased approximately \$103,595, or 2.6%, and expenses decreased by \$144,517 or 3.6%. In the business-type activities, operating revenues increased by \$336,997, which is an increase of 13.5%, and operating expenses increased by \$18,835 or 0.6%.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditors' report, the basic financial statements of the City, and the independent auditors' report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the City and the changes in them. One can think of the City's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including general government administration, police, streets, sanitation and parks. Property taxes, licenses and permits, and grants finance most of these activities.

Business-type activities—The City collects fees from customers to cover the costs of the services, which includes water and sewer and the Eagle Creek golf course.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund—Services for which the City charges customers a fee are generally reported in proprietary funds.

NET ASSETS

Our analysis begins with a summary of the City's Statement of Net Assets, which is presented on Table A-1 followed by an explanation of the results. Changes in net assets are presented in Table A-2, which is also followed by an explanation of the results.

Table A-1

Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Current and Other Assets	\$ 1,151,577	\$ 1,376,216	\$ 1,440,018	\$ 1,448,499	\$ 2,591,595	\$ 2,824,715
Noncurrent and Capital Assets	3,551,086	3,498,510	19,215,935	19,510,154	22,767,021	23,008,664
Total Assets	<u>4,702,663</u>	<u>4,874,726</u>	<u>20,655,953</u>	<u>20,958,653</u>	<u>25,358,616</u>	<u>25,833,379</u>
Current Liabilities	196,227	304,149	608,768	904,374	804,995	1,208,523
Long-Term Debt Outstanding	1,080,000	1,125,000	4,597,142	4,587,795	5,677,142	5,712,795
OLDA Investment Liability	1,619,475	1,431,241	-	-	1,619,475	1,431,241
Total Liabilities	<u>2,895,702</u>	<u>2,860,390</u>	<u>5,205,910</u>	<u>5,492,169</u>	<u>8,101,612</u>	<u>8,352,559</u>
Net Assets:						
Invested in Capital Assets, net of debt	2,426,086	2,328,510	13,857,164	13,973,863	16,283,250	16,302,373
Restricted	411,721	403,592	173,809	231,461	585,530	635,053
Unrestricted	(1,030,846)	(717,766)	1,419,070	1,261,160	388,224	543,394
Total Net Assets	<u>\$ 1,806,961</u>	<u>\$ 2,014,336</u>	<u>\$ 15,450,043</u>	<u>\$ 15,466,484</u>	<u>\$ 17,257,004</u>	<u>\$ 17,480,820</u>

Net assets of the City's governmental activities decreased by 10.3%, from \$2,014,336 in 2010 to \$1,806,961 in 2011. The net assets of the business-type activities decreased from \$15,466,484 in 2010 to \$15,450,043 in 2011, which is a 0.1% decrease. The net assets from one activity generally cannot be used to make up for any deficits in the other activities.

NET ASSETS, continued

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 325,276	\$ 340,722	\$ 2,840,083	\$ 2,468,690	\$ 3,165,359	\$ 2,809,412
Operating Grants & Contributions	163,851	174,875	-	-	163,851	174,875
Capital Grants & Contributions	16,400	36,606	239,811	464,588	256,211	501,194
<u>General Revenue</u>						
Taxes	1,417,585	1,452,825	-	-	1,417,585	1,452,825
License fees	1,736,632	1,718,040	-	-	1,736,632	1,718,040
Investment Earnings	4,992	7,297	9,261	11,711	14,253	19,008
Rents	34,600	24,050	-	-	34,600	24,050
Community Center Donations	13,064	843	-	-	13,064	843
Change in OLDA Investment	(188,234)	(88,693)	-	-	(188,234)	(88,693)
Miscellaneous	108,877	90,014	-	34,396	108,877	124,410
Total Revenue	3,635,456	3,858,992	3,089,155	2,979,385	6,724,611	6,838,377
Program Expenses						
General Government	589,952	668,380	-	-	589,952	668,380
Public Safety - Police	1,386,207	1,242,917	-	-	1,386,207	1,242,917
Public Works	787,183	741,292	-	-	787,183	741,292
Parks and Recreation	185,258	151,963	-	-	185,258	151,963
Sanitation	319,002	319,001	-	-	319,002	319,001
Community Development	357,735	127,844	-	-	357,735	127,844
Public Safety - Fire	-	48,969	-	-	-	48,969
Public Properties	41,544	38,538	-	-	41,544	38,538
Interest on Debt	54,320	56,160	-	-	54,320	56,160
Golf Course	-	-	633,101	653,588	633,101	653,588
Sewer and Water	-	-	2,622,337	2,623,232	2,622,337	2,623,232
Total Program Expenses	3,721,201	3,395,064	3,255,438	3,276,820	6,976,639	6,671,884
Change In Net Assets						
Before Transfers	(85,745)	463,928	(166,283)	(297,435)	(252,028)	166,493
Transfers	(121,630)	(58,976)	149,842	58,976	28,212	-
Change in Net Assets	\$ (207,375)	\$ 404,952	\$ (16,441)	\$ (238,459)	\$ (223,816)	\$ 166,493

The City's total revenue decreased from \$6,838,377 in 2010 to \$6,724,611 in 2011 or 1.7%. On the following page is a more in-depth description of the revenues and expenses of the governmental and business-type activities.

GOVERNMENTAL ACTIVITIES

Next, the City analyzes the governmental activities and the changes in those activities, which is presented in Table A-3.

Table A-3

Condensed Governmental Activities - Statement of Revenues & Expenditures

	<u>FY 2011</u>	<u>FY2010</u>	<u>Variance</u>
Taxes	\$ 1,417,585	\$ 1,652,722	\$ (235,137)
Licenses and permits	1,736,632	1,497,053	239,579
Intergovernmental	180,251	191,081	(10,830)
Charges for Services	325,276	340,722	(15,446)
Other Revenues	<u>163,946</u>	<u>245,707</u>	<u>(81,761)</u>
Total Revenues	<u>3,823,690</u>	<u>3,927,285</u>	<u>(103,595)</u>
General Administration	536,261	614,645	(78,384)
Police Protection	1,331,333	1,193,785	137,548
Public Works	629,731	635,598	(5,867)
Sanitation	319,002	319,001	1
Park and Recreation	164,655	140,581	24,074
Community Development	357,735	326,275	31,460
Fire Protection	-	48,969	(48,969)
Public Properties	41,544	38,538	3,006
Capital Outlay	339,196	540,950	(201,754)
Debt Service	<u>99,320</u>	<u>104,952</u>	<u>(5,632)</u>
Total Expenditures	<u>3,818,777</u>	<u>3,963,294</u>	<u>(144,517)</u>
Excess Revenues over Expenditures before transfers	<u>\$ 4,913</u>	<u>\$ (36,009)</u>	<u>\$ 40,922</u>

Revenues for the City's governmental activities decreased by 2.6%, and total expenditures decreased by 3.6%. The City's major source of revenue in the governmental activities is taxes, licenses and permits, which makes up 82.5% of total revenues, these revenue sources increased by \$4,442 in 2011. The major expenses are for police protection which makes up 34.9 % of total expenditures.

BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, operating revenues (FY 2011) for the City increased to \$2,840,083 or 13.5%, while total operating expenses increased 0.6%. The excess of total expense over total revenues decreased net assets by \$16,441. The City's major sources of revenue, beyond customer charges, are capital grants and contributions, which decreased by \$224,777. This revenue source made up 7.4% of revenue in FY 2011 and 15.2% in FY 2010.

BUDGET HIGHLIGHTS

The budget contains proposed expenditures and expected revenues. A comparison of the final budget to actual amounts is presented in the table below (Tables A-4 & A-5).

Table A-4

Condensed Governmental Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 1,347,000	\$ 1,417,585	\$ 70,585
Licenses and permits	1,818,000	1,736,632	(81,368)
Intergovernmental	79,800	67,578	(12,222)
Charges for Services	340,000	325,276	(14,724)
Other Revenues	561,263	162,415	(398,848)
Municipal Aid Fund	120,000	114,204	(5,796)
Total Revenues	<u>\$ 4,266,063</u>	<u>\$ 3,823,690</u>	<u>\$ (442,373)</u>

Table A-5

Condensed Governmental Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 987,156	\$ 536,261	\$ (450,895)
Police Protection	1,314,155	1,331,333	17,178
Public Works	752,675	629,731	(122,944)
Sanitation	293,000	319,002	26,002
Park and Recreation	165,000	164,655	(345)
Community Development	354,452	357,735	3,283
Public Properties	46,584	41,544	(5,040)
Capital Outlay	207,000	244,647	37,647
Debt Service	428,341	99,320	(329,021)
Municipal Aid Fund	40,000	94,549	54,549
Total Expenditures	<u>\$ 4,588,363</u>	<u>\$ 3,818,777</u>	<u>\$ (769,586)</u>

The City budgeted for a total of \$4,266,063 in revenues for 2011, but ended up having revenues of \$3,823,690, which put the City over 10.4% under the revenue budget. A total of \$4,588,363 was budgeted for expenses, but expenditures totaled \$3,818,777 for the year 2011. The City was under budget on the expenses by \$769,586 or 16.8% as detailed above.

CAPITAL ASSETS

The City has a total of \$34,726,343 invested in a broad range of capital assets, including police and vehicles, buildings, land, infrastructure assets, and water and sewer lines. This amount represents an increase of \$889,654 (2.6%) from last year's total investment of \$33,836,689.

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Land & Improvements	\$ 698,184	\$ 698,184	\$ -	\$ -	\$ 698,184	\$ 698,184
Buildings & Improvements	2,075,179	1,972,818	-	-	2,075,179	1,972,818
Vehicles & Equipment	2,232,965	2,090,679	-	-	2,232,965	2,090,679
Infrastructure Assets	698,132	603,583	-	-	698,132	603,583
Business-Type Assets	-	-	29,021,883	28,471,425	29,021,883	28,471,425
Total Capital Assets	<u>\$ 5,704,460</u>	<u>\$ 5,365,264</u>	<u>\$29,021,883</u>	<u>\$28,471,425</u>	<u>\$34,726,343</u>	<u>\$33,836,689</u>

DEBT

This year the City has \$6,190,945 in long-term debt, a 5.1% decrease from last year's total of \$6,521,040.

Table A-7

Debt Outstanding at Year End

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Notes Payable	\$ -	\$ -	\$ -	\$ 774,414	\$ -	\$ 774,414
Capital Leases	1,125,000	1,170,000	3,271,677	2,651,034	4,396,677	3,821,034
Bond Issues	-	-	1,630,000	1,730,000	1,630,000	1,730,000
Capital Equipment Leases	-	-	44,445	75,608	44,445	75,608
Customer Deposits	-	-	41,394	39,869	41,394	39,869
Accrued Absences	62,232	62,232	16,197	17,883	78,429	80,115
Total Debt Outstanding	<u>\$ 1,187,232</u>	<u>\$ 1,232,232</u>	<u>\$ 5,003,713</u>	<u>\$ 5,288,808</u>	<u>\$ 6,190,945</u>	<u>\$ 6,521,040</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2012 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Stephanie Cooper, City Clerk, at 307 West Jefferson Street, LaGrange, KY 40031. The Utility Commission is located at 412 East Jefferson Street, LaGrange, KY 40031.

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of LaGrange
LaGrange, Kentucky

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of LaGrange, Kentucky, as of June 30, 2011, and for the year then ended, 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 of LaGrange, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Utility Commission of the City of LaGrange (UCCL) which is both a major fund and 83.9%, 97.2%, and 81.9%, respectively, of the assets, net assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those activities, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of LaGrange, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 32 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated June 25, 2012 on our consideration of the City of LaGrange, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of LaGrange, Kentucky's basic financial statements. The supplemental schedules on pages 36 and 37 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was 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 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
June 25, 2012

CITY OF LAGRANGE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			2010 Totals
	Governmental Activities	Business-type Activities	2011 Totals	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 660,158	\$ 512,334	\$ 1,172,492	\$ 1,584,204
Certificates of deposit	-	568,141	568,141	312,610
Receivables (net)	412,407	306,066	718,473	823,937
Interest receivable	-	672	672	796
Internal balances	54,233	(54,233)	-	-
Inventory of supplies	-	107,038	107,038	94,117
Prepaid expense	24,779	-	24,779	9,051
Total current assets	<u>1,151,577</u>	<u>1,440,018</u>	<u>2,591,595</u>	<u>2,824,715</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	249,924	249,924	305,235
Unamortized debt issuance cost	-	24,700	24,700	32,028
Capital assets				
Construction in process	-	162,725	162,725	-
Land and improvements, net	698,184	2,981,543	3,679,727	3,712,470
Plant and sewer system, net	-	14,731,929	14,731,929	15,051,272
Depreciable buildings, property, and equipment, net	2,355,959	1,065,114	3,421,073	3,435,452
Infrastructure, net	496,943	-	496,943	472,207
Total noncurrent assets	<u>3,551,086</u>	<u>19,215,935</u>	<u>22,767,021</u>	<u>23,008,664</u>
Total assets	<u>\$ 4,702,663</u>	<u>\$ 20,655,953</u>	<u>\$ 25,358,616</u>	<u>\$ 25,833,379</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 59,754	\$ 113,943	\$ 173,697	\$ 270,261
Accrued interest	-	33,822	33,822	33,905
Accrued payroll liabilities	29,241	17,570	46,811	41,999
Accrued leave	62,232	16,197	78,429	80,115
Deferred revenues	-	36,862	36,862	54,113
Current portion of long-term obligations	45,000	390,374	435,374	728,130
Total current liabilities	196,227	608,768	804,995	1,208,523
Noncurrent liabilities				
Noncurrent portion of long-term obligations	1,080,000	4,597,142	5,677,142	5,712,795
Investment in joint venture (net equity) Oldham-LaGrange Development Authority	1,619,475	-	1,619,475	1,431,241
Total liabilities	<u>2,895,702</u>	<u>5,205,910</u>	<u>8,101,612</u>	<u>8,352,559</u>
Net assets				
Invested in capital assets, net of related debt	2,426,086	13,857,164	16,283,250	16,302,373
Restricted for:				
Road improvements	289,983	-	289,983	270,328
Debt service	5,104	173,809	178,913	236,555
Capital projects	76,779	-	76,779	88,438
Foundations and parks	39,855	-	39,855	39,732
Unrestricted	(1,030,846)	1,419,070	388,224	543,394
Total net assets	<u>1,806,961</u>	<u>15,450,043</u>	<u>17,257,004</u>	<u>17,480,820</u>
Total liabilities and net assets	<u>\$ 4,702,663</u>	<u>\$ 20,655,953</u>	<u>\$ 25,358,616</u>	<u>\$ 25,833,379</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2010 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2011 Totals	
Primary government								
Governmental activities								
General government	\$ 589,952	\$ -	\$ 3,221	\$ -	\$ (586,731)	\$ -	\$ (586,731)	\$ (664,166)
Public safety-Police	1,386,207	-	47,957	-	(1,338,250)	-	(1,338,250)	(1,181,212)
Public works	787,183	-	112,673	16,400	(658,110)	-	(658,110)	(595,730)
Parks and recreation	185,258	-	-	-	(185,258)	-	(185,258)	(151,963)
Sanitation	319,002	325,276	-	-	6,274	-	6,274	21,721
Community development	357,735	-	-	-	(357,735)	-	(357,735)	(127,844)
Fire	-	-	-	-	-	-	-	(48,969)
Public properties	41,544	-	-	-	(41,544)	-	(41,544)	(38,538)
Interest on long-term debt	54,320	-	-	-	(54,320)	-	(54,320)	(56,160)
Total governmental activities	<u>3,721,201</u>	<u>325,276</u>	<u>163,851</u>	<u>16,400</u>	<u>(3,215,674)</u>	<u>-</u>	<u>(3,215,674)</u>	<u>(2,842,861)</u>
Business type activities								
Utility Commission	2,622,337	2,326,545	-	234,811	-	(60,981)	(60,981)	(306,570)
Golf Course	633,101	513,538	-	5,000	-	(114,563)	(114,563)	(36,972)
Total business-type activities	<u>3,255,438</u>	<u>2,840,083</u>	<u>-</u>	<u>239,811</u>	<u>-</u>	<u>(175,544)</u>	<u>(175,544)</u>	<u>(343,542)</u>
Total primary government	<u>\$ 6,976,639</u>	<u>\$ 3,165,359</u>	<u>\$ 163,851</u>	<u>\$ 256,211</u>	<u>(3,215,674)</u>	<u>(175,544)</u>	<u>(3,391,218)</u>	<u>(3,186,403)</u>
General revenues								
Taxes:								
Property taxes, levied for general purposes					1,260,423	-	1,260,423	1,332,353
Bank shares					49,862	-	49,862	51,320
Motor vehicle tax					107,300	-	107,300	69,152
License fees:								
Franchise fees					297,752	-	297,752	199,897
Business licenses					216,779	-	216,779	217,998
Insurance premiums					1,200,034	-	1,200,034	1,257,722
Other fees and permits					22,067	-	22,067	42,423
Investment earnings					4,992	9,261	14,253	19,008
Rents					34,600	-	34,600	24,050
Community Center					13,064	-	13,064	843
Donations					2,413	-	2,413	102,413
Miscellaneous					108,877	-	108,877	124,410
Total general revenues					<u>3,318,163</u>	<u>9,261</u>	<u>3,327,424</u>	<u>3,441,589</u>
Decrease in joint venture - Oldham-LaGrange Development Authority					(188,234)	-	(188,234)	(88,693)
Transfers in (out)					(121,630)	149,842	28,212	-
Total general and other revenues (expenses)					<u>3,008,299</u>	<u>159,103</u>	<u>3,167,402</u>	<u>3,352,896</u>
Change in Net Assets					(207,375)	(16,441)	(223,816)	166,493
Net assets - beginning					<u>2,014,336</u>	<u>15,466,484</u>	<u>17,480,820</u>	<u>17,314,327</u>
Net Assets - Ending					<u>\$ 1,806,961</u>	<u>\$ 15,450,043</u>	<u>\$ 17,257,004</u>	<u>\$17,480,820</u>

The accompanying notes are an integral part of the financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
ASSETS				
Cash and cash equivalents	\$ 258,625	\$ 401,533	\$ 660,158	\$ 851,401
Receivables, net	402,219	10,188	412,407	498,794
Prepaid insurance	24,779	-	24,779	-
Due from other funds	57,274	-	57,274	29,062
Total assets	\$ 742,897	\$ 411,721	\$ 1,154,618	\$ 1,379,257
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 59,754	\$ -	\$ 59,754	\$ 163,802
Accrued payroll payable	29,241	-	29,241	33,115
Due to other funds	3,041	-	3,041	3,041
Accrued leave	62,232	-	62,232	62,232
Total liabilities	154,268	-	154,268	262,190
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Road improvements	-	289,983	289,983	270,328
Committed	-	-	-	-
Assigned				
Debt service	-	5,104	5,104	5,094
Capital projects	-	76,779	76,779	88,438
Foundations and parks	-	39,855	39,855	39,732
Unassigned				
General fund	588,629	-	588,629	713,475
Total fund balances	588,629	411,721	1,000,350	1,117,067
Total liabilities and fund balances	\$ 742,897	\$ 411,721	\$ 1,154,618	\$ 1,379,257

Amounts reported for *governmental activities* in the statement of net assets are different because :

Fund balances reported above		\$ 1,000,350	\$ 1,117,067
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,551,086	3,498,510
Equity interests in joint ventures are not financial resources and therefore are not reported in the funds. The equity interest is reported as the net equity in the joint venture's net assets.		(1,619,475)	(1,431,241)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(1,125,000)	(1,170,000)
Net assets of governmental activities		\$ 1,806,961	\$ 2,014,336

The accompanying notes are an integral part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
REVENUES				
Taxes	\$ 1,417,585	\$ -	\$ 1,417,585	\$ 1,652,722
Licenses and permits	1,736,632	-	1,736,632	1,497,053
Intergovernmental	67,578	112,673	180,251	191,081
Charges for services	325,276	-	325,276	340,722
Other revenues	162,282	1,664	163,946	245,707
 Total revenues:	 3,709,353	 114,337	 3,823,690	 3,927,285
 EXPENDITURES				
Current:				
General administration	536,261	-	536,261	614,645
Public safety-Police	1,331,333	-	1,331,333	1,193,785
Public works	629,731	-	629,731	635,598
Sanitation	319,002	-	319,002	319,001
Parks and Recreation	164,655	-	164,655	140,581
Community development	357,735	-	357,735	326,275
Fire	-	-	-	48,969
Public properties	41,544	-	41,544	38,538
Capital outlay	244,647	94,549	339,196	540,950
Debt service	-	99,320	99,320	104,952
 Total expenditure:	 3,624,908	 193,869	 3,818,777	 3,963,294
 Excess (deficiency) of revenues: over expenditures:	 84,445	 (79,532)	 4,913	 (36,009)
 OTHER FINANCING SOURCES (USES)				
Contributed capital	-	-	-	20,400
Transfer in (out)	(209,291)	87,661	(121,630)	(58,976)
 Total other financing sources and use:	 (209,291)	 87,661	 (121,630)	 (38,576)
 Net change in fund balances	 (124,846)	 8,129	 (116,717)	 (74,585)
 Fund balances-beginning	 713,475	 403,592	 1,117,067	 1,191,652
 Fund balances-ending	 \$ 588,629	 \$ 411,721	 \$ 1,000,350	 \$ 1,117,067
 Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ (116,717)	\$ (74,585)
add: capital outlay expenditures capitalized			339,196	540,950
add: debt service expenditures			99,320	104,952
add: debt expenditures on behalf of joint venture			-	198,431
less: depreciation on governmental activities assets			(286,620)	(219,943)
less: interest expense			(54,320)	(56,160)
less: decreases in the equity interest of joint venture			(188,234)	(88,693)
 Change in net assets Governmental Activities			 \$ (207,375)	 \$ 404,952

The accompanying notes are an integral
part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2011

ASSETS	Business Type Activities		2011 Totals	2010 Totals
	Water & Sewer	Golf Course		
Current assets				
Cash and cash equivalents	\$ 472,334	\$ 40,000	\$ 512,334	\$ 732,803
Certificates of deposit	568,141	-	568,141	312,610
Receivables (net)	304,377	1,689	306,066	325,143
Interest receivable	672	-	672	796
Inventory	103,673	3,365	107,038	94,117
Prepaid expenses	-	-	-	9,051
Due from the City	-	3,041	3,041	3,041
Total current assets	<u>1,449,197</u>	<u>48,095</u>	<u>1,497,292</u>	<u>1,477,561</u>
Non-current assets				
Restricted cash and cash equivalents	43,430	206,494	249,924	305,235
Unamortized debt issuance cost	-	24,700	24,700	32,028
Total non-current assets	<u>43,430</u>	<u>231,194</u>	<u>274,624</u>	<u>337,263</u>
Capital assets				
Construction in progress	162,725	-	162,725	-
Land	67,217	1,614,643	1,681,860	1,681,860
Land improvements	-	2,311,471	2,311,471	2,242,520
Plant and sewer system	22,780,107	-	22,780,107	22,499,268
Buildings and improvements	857,893	-	857,893	857,893
Vehicle and equipment	654,297	573,530	1,227,827	1,189,884
Less accumulated depreciation	<u>(8,638,071)</u>	<u>(1,442,501)</u>	<u>(10,080,572)</u>	<u>(9,298,534)</u>
Total capital assets	<u>15,884,168</u>	<u>3,057,143</u>	<u>18,941,311</u>	<u>19,172,891</u>
Total assets	<u>\$ 17,376,795</u>	<u>\$ 3,336,432</u>	<u>\$ 20,713,227</u>	<u>\$ 20,987,715</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 94,361	\$ 19,582	\$ 113,943	\$ 106,459
Accrued payroll liabilities	7,810	9,760	17,570	8,884
Due to the City	57,274	-	57,274	29,062
Accrued interest payable	1,137	32,685	33,822	33,905
Deferred revenue	-	36,862	36,862	54,113
Accrued compensated absences	16,197	-	16,197	17,883
Capital equipment lease	-	33,011	33,011	31,175
Capital lease obligations	202,363	10,000	212,363	27,834
Bonds, notes, and loans payable	-	145,000	145,000	624,121
Total current liabilities	<u>379,142</u>	<u>286,900</u>	<u>666,042</u>	<u>933,436</u>
Non-current liabilities				
Capital equipment lease	-	11,434	11,434	44,433
Capital lease obligations	1,934,314	1,125,000	3,059,314	2,623,200
Bonds, notes, and loans payable	-	1,485,000	1,485,000	1,880,293
Customer deposits payable	<u>41,394</u>	<u>-</u>	<u>41,394</u>	<u>39,869</u>
Total non-current liabilities	<u>1,975,708</u>	<u>2,621,434</u>	<u>4,597,142</u>	<u>4,587,795</u>
Total liabilities	<u>2,354,850</u>	<u>2,908,334</u>	<u>5,263,184</u>	<u>5,521,231</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,584,766	272,398	13,857,164	13,973,863
Restricted for:				
Debt service	-	173,809	173,809	231,461
Unrestricted	<u>1,437,179</u>	<u>(18,109)</u>	<u>1,419,070</u>	<u>1,261,160</u>
Total net assets	<u>15,021,945</u>	<u>428,098</u>	<u>15,450,043</u>	<u>15,466,484</u>
Total liabilities and net assets	<u>\$ 17,376,795</u>	<u>\$ 3,336,432</u>	<u>\$ 20,713,227</u>	<u>\$ 20,987,715</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business Type Activities		2011	2010
	Water & Sewer	Golf Course	Totals	Totals
Operating revenues				
Charges for services	\$ 2,276,571	\$ 513,538	\$ 2,790,109	\$ 2,468,690
Other income	49,974	-	49,974	34,396
Total operating revenues	<u>2,326,545</u>	<u>513,538</u>	<u>2,840,083</u>	<u>2,503,086</u>
Operating expenses				
General and administrative	472,097	116,438	588,535	646,086
Rent	-	1,318	1,318	1,738
Salaries and wages	-	137,868	137,868	139,102
Repairs and maintenance	-	61,351	61,351	804,016
Cost of sales	614,375	16,852	631,227	541,152
Other operating expenses	780,095	40,378	820,473	44,170
Depreciation	<u>661,322</u>	<u>120,716</u>	<u>782,038</u>	<u>827,711</u>
Total operating expenses	<u>2,527,889</u>	<u>494,921</u>	<u>3,022,810</u>	<u>3,003,975</u>
Operating (loss)	<u>(201,344)</u>	<u>18,617</u>	<u>(182,727)</u>	<u>(500,889)</u>
Non-operating revenues (expenses)				
Interest and investment revenue	6,414	2,847	9,261	11,711
Interest expense	(89,969)	(135,330)	(225,299)	(267,772)
Transfers in	-	149,842	149,842	73,125
Transfers out	-	-	-	(14,149)
Amortization of debt issuance cost	<u>(4,479)</u>	<u>(2,850)</u>	<u>(7,329)</u>	<u>(5,073)</u>
Total non-operating (expense)	<u>(88,034)</u>	<u>14,509</u>	<u>(73,525)</u>	<u>(202,158)</u>
Income (Loss) before capital contributions	(289,378)	33,126	(256,252)	(703,047)
Capital contributions				
Capital Contributions	<u>234,811</u>	<u>5,000</u>	<u>239,811</u>	<u>464,588</u>
Change in net assets	(54,567)	38,126	(16,441)	(238,459)
Total net assets - beginning	<u>15,076,512</u>	<u>389,972</u>	<u>15,466,484</u>	<u>15,704,943</u>
TOTAL NET ASSETS - ENDING	<u>\$ 15,021,945</u>	<u>\$ 428,098</u>	<u>\$ 15,450,043</u>	<u>\$ 15,466,484</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business Type Activities		2011 Totals	2010 Totals
	Water & Sewer	Golf Course		
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,372,411	\$ 494,677	\$ 2,867,088	\$ 2,473,215
Receipts (refunds) of customer meter deposits	1,525	-	1,525	4,864
Payments to suppliers	(1,390,429)	(276,463)	(1,666,892)	(1,390,602)
Payments for employee services and benefits	(474,621)	(81,336)	(555,957)	(675,045)
Net cash provided by operating activities	<u>508,886</u>	<u>136,878</u>	<u>645,764</u>	<u>412,432</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	5,000	5,000	288,430
Transfers in from City of LaGrange	-	149,842	149,842	73,125
Transfers out to City of LaGrange	-	-	-	(14,149)
Purchases of capital assets	(257,593)	(70,251)	(327,844)	(801,986)
Principal paid on capital debt	(2,428,416)	(141,163)	(2,569,579)	(2,074,452)
Proceeds from loans	2,284,645	-	2,284,645	2,230,000
Interest paid on capital debt	(87,663)	(135,330)	(222,993)	(268,414)
Net cash (used in) capital and related financing activities	<u>(489,027)</u>	<u>(191,902)</u>	<u>(680,929)</u>	<u>(567,446)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	6,538	2,847	9,385	17,412
Proceeds from certificates of deposits	(250,000)	-	(250,000)	624,089
Purchase of certificates of deposits	-	-	-	(9,471)
Net cash provided by investing activities	<u>(243,462)</u>	<u>2,847</u>	<u>(240,615)</u>	<u>632,030</u>
Net increase (decrease) in cash and cash equivalents	(223,603)	(52,177)	(275,780)	477,016
Cash and cash equivalents, beginning of the year	<u>739,367</u>	<u>298,671</u>	<u>1,038,038</u>	<u>561,022</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 515,764</u>	<u>\$ 246,494</u>	<u>\$ 762,258</u>	<u>\$ 1,038,038</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (201,344)	\$ 18,617	\$ (182,727)	\$ (500,889)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	661,322	120,716	782,038	827,711
Change in assets and liabilities:				
Receivables, net	20,687	(1,610)	19,077	(47,560)
Inventory	(13,749)	829	(12,920)	9,680
Prepaid expenses	4,479	9,051	13,530	55,067
Due to City of LaGrange	28,212	-	28,212	3,387
Accounts and other payables	1,630	5,855	7,485	64,932
Accrued expenses	(1,686)	876	(810)	(3,095)
Accrued bond and interest	-	(205)	(205)	(15,967)
Customer deposits payable	1,525	-	1,525	4,864
Retirement payable	7,810	(17,251)	(9,441)	14,302
Net cash provided by operating activities	<u>\$ 508,886</u>	<u>\$ 136,878</u>	<u>\$ 645,764</u>	<u>\$ 412,432</u>
Schedule of non-cash investing, capital and financing activities:				
Contributed water and sewer mains from developers	<u>\$ 234,811</u>	<u>\$ -</u>	<u>\$ 234,811</u>	<u>\$ 176,160</u>
Contributed equipment from City of LaGrange	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,751</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of LaGrange, Kentucky operates under the City Council form of government and provides the following services as authorized by its charter: public safety, public works, recreation and community development. The accounting policies of the City of LaGrange conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting Entity

The financial statements of the City of LaGrange, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, and participate in fiscal management and the scope of public service. The Council has oversight responsibility for various boards and foundations included in the accompanying financial statements. The LaGrange Public Properties Corporation and Utility Commission of the City of LaGrange, Kentucky are blended component units that are subject to the City's oversight responsibility. Separately issued financial statement of the Utility Commission can be obtained by request at 412 East Jefferson Street, LaGrange, KY, 40031 or by calling (502) 222-9325. The City is involved in a joint venture with Oldham County in the Oldham-LaGrange Development Authority. See footnote 12.

Blended Component Units

Blended component units are separate entities that meet the component unit criteria described above and whose governing body is the same as or designated by the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type.

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
City of LaGrange Public Properties Corporation	The Corporation is legally separate from the City, but it is reported as if it were part of the City, the primary government, because its sole purpose is to finance the acquisition of City real estate and buildings.	General Fund
Utility Commission Of the City of LaGrange, Kentucky	The Commission is operated by a five member board of commissioners which includes four City of LaGrange, Kentucky, residents appointed by the Mayor and approved by the City Council. The fifth member of the board of commissioners is a member of the City Council appointed by and from the membership of the City Council. The Commission is an agency that the City Council created to supervise, control and maintain the waterworks and sewer system for the City.	Proprietary Fund Enterprise Fund

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

The City's financial statements are presented in conformity with the of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.**" and consist of the following:

Management's discussion and analysis (required supplementary information);

- Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
- Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements include a statement of net assets and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

Fund Financial Statements

Fund financials statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that are comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises - where the governing body intends for the costs of providing services should be financed or recovered primarily through user charges.

The following funds are used by the City of LaGrange:

Governmental Funds

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as police, fire protection, community services and general administration are reported in this fund

Debt Service Fund – Accounts for the activities of the City of LaGrange Public Properties Corporation. The Corporation was created as a non-profit, non-stock corporation to acquire, with borrowed funds, real property for use by the city.

Capital Project Fund – The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Foundations and Parks Fund – Accounts for the activities of the City of LaGrange Foundation, incorporated which was created as a non-profit corporation to receive donations for projects for the betterment of the City of LaGrange and Oldham County.

Municipal Road Aid Fund – Special revenue fund that accounts for the money received from the Commonwealth of Kentucky under the gasoline tax distribution program. Reserved for road maintenance.

Proprietary Funds

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Enterprise funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the following:

Utility Commission of the City of LaGrange, Kentucky – Accounts for activities in providing water and wastewater services to the residents of the City of LaGrange, the operations of which are financed by user charges.

Eagle Creek Golf Course – Accounts for activities in providing golfing facilities to the public and the management of the retail pro-shop.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of 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 individual funds.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Accounting, continued

Fund Financial Statements, continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A period of sixty (60) days is used for property tax revenues. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Operating revenues include charges for service and other income, operating expenses include direct costs and depreciation. All other revenues or expenses are treated as non-operating.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits, both unrestricted and restricted. Certificates of deposit include all certificates owned by the City. Cash and cash equivalents and certificates of deposits are stated at actual cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Supplies Inventory

Inventories in the general and proprietary funds consist of expendable supplies that are stated on a first-in, first-out method. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Inventories of the special revenue funds are recorded as expenditures when purchased rather than when consumed.

Accounts Receivable

Governmental activities accounts receivable consists of property taxes, occupational license fees, insurance premium taxes, franchise fees, service revenues and grant funds which are disbursed on an expenditure-reimbursement plan.

Business-type activities extend credit to substantially all of their customers.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assets, Liabilities and Net Assets or Equity, continued

Accounts Receivable, continued

Accounts receivable are stated at face amount, less an allowance for doubtful accounts of \$80,180 in the general fund and \$0 in the proprietary funds, which approximates fair market value.

The City maintains allowances for doubtful accounts based on evaluation by management and percentages applied to the various aging periods of accounts receivable. Specific accounts deemed uncollectible are charged to the allowance upon evaluation by management. Evaluation factors include familiarity with the customer, credit history and the age of the unpaid bill. Property taxes not collected within sixty (60) days of year end are fully reserved.

Capital Assets and Depreciation

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 City maintains a capitalization threshold of one thousand dollars (\$1,000). Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Transfers of capital assets between funds are recorded at the net book value of the transferred asset at the time of transfer.

All reported capital assets are depreciated with the exception of land and construction in progress. 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>Years</u>
Utility plant and distribution system	20-50
Buildings and improvements	10-40
Land improvements	10-40
Infrastructure	10-25
Machinery and equipment	3-15

Deferred Revenues

Deferred revenues represent revenues received but not earned. Revenues are recognized when eligible expenditures are incurred.

Compensated Absences

Accrued vacation pay vests as of January 1 and must be used by December 31 of each year. Unused vacation pay is payable upon termination of employment. The liability for these compensated absences is recorded as a current liability.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assets, Liabilities and Net Assets or Equity, continued

Long-Term Debt and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as both current and long-term liabilities. Bond issuance costs and bond discounts or premiums are capitalized and amortized over the terms of the related debt.

In the fund financial statements, governmental fund types recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City has adopted GASB 54 which further breaks down both nonspendable and spendable components into the following components:

Nonspendable - amounts that must be maintained intact legally or contractually.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts constrained for a specific purpose by the City using its highest level of decision making authority.

Assigned – for all governmental funds, other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the general fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

Unassigned – for the general fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City commission.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City and have been revised for amendments authorized during the year.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Other Accounting Policies

Interfund Transactions

Interfund transactions are reflected as transfers. Transfers occur for various reasons related to the day to day operations of the funds and are reported as receivables and payables as appropriate and are subject to elimination upon consolidation and are referred to as either "due to/from other fund" in the fund financial statements. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Cash and Cash Equivalents

The City of LaGrange considers all cash, both restricted and unrestricted, including certificates of deposit with an initial maturity of 90 days or less, as cash for purposes of the statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

2. CASH AND INVESTMENTS

The City of LaGrange's deposits and investments at June 30, 2011, were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balance of the City's deposits was \$1,990,557 and the bank balances were \$2,146,937.

The following is a detail of the City's cash deposit coverage at June 30, 2011:

FDIC insured	\$ 1,334,912
Collateralized by securities held by the bank in the City's name	547,774
Collateralized by securities held by the bank but not in the City's name	187,472
Invested in money market funds	<u>76,779</u>
Total	<u>\$ 2,146,937</u>

Restricted assets consist of the following:

	Utility Commission	Golf Course	Total
Cash – Bond & Interest Account	\$ -	\$ 206,494	\$ 206,494
Cash – Customer Deposits	<u>43,430</u>	<u>-</u>	<u>43,430</u>
Total	<u>\$ 43,430</u>	<u>\$ 206,494</u>	<u>\$ 249,924</u>

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

3. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year is as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 698,184	\$ -	\$ -	\$ 698,184
Capital assets that are depreciated:				
Buildings and improvements	1,972,818	102,361	-	2,075,179
Machinery & equipments	2,090,679	142,286	-	2,232,965
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>4,063,497</u>	<u>244,647</u>	<u>-</u>	<u>4,308,144</u>
Total non-infrastructure assets	<u>4,761,681</u>	<u>244,647</u>	<u>-</u>	<u>5,006,328</u>
Infrastructure assets	<u>603,583</u>	<u>94,549</u>	<u>-</u>	<u>698,132</u>
Total capital assets	<u>5,365,264</u>	<u>339,196</u>	<u>-</u>	<u>5,704,460</u>
Less accumulated depreciation:				
Buildings and improvements	553,298	59,745	-	613,043
Machinery and equipment	1,182,082	157,060	-	1,339,142
Infrastructure	<u>131,374</u>	<u>69,815</u>	<u>-</u>	<u>201,189</u>
Totals	<u>1,866,754</u>	<u>286,620</u>	<u>-</u>	<u>2,153,374</u>
Depreciable capital assets, net	<u>\$ 3,498,510</u>	<u>\$ 52,576</u>	<u>\$ -</u>	<u>\$ 3,551,086</u>
Business-Type Activities:				
Land and easements	\$ 1,681,860	\$ -	\$ -	\$ 1,681,860
Buildings and improvements	3,100,412	68,951	-	3,169,363
Water tank	2,941,159	-	-	2,941,159
Mains, hydrants and new water services	3,550,652	106,018	-	3,656,670
Sewage treatment plant	5,794,458	-	-	5,794,458
Sewage system lines and pump stations	10,212,999	174,821	-	10,387,820
Transportation equipment	240,323	-	-	240,323
Machinery and equipment	572,231	1,300	-	573,531
General office equipment	377,331	36,643	-	413,974
Construction in progress	<u>-</u>	<u>162,725</u>	<u>-</u>	<u>162,725</u>
Total	<u>28,471,425</u>	<u>550,458</u>	<u>-</u>	<u>29,021,883</u>
Less: accumulated depreciation	<u>9,298,534</u>	<u>782,038</u>	<u>-</u>	<u>10,080,572</u>
Capital Assets, net	<u>\$ 19,172,891</u>	<u>\$ (231,580)</u>	<u>\$ -</u>	<u>\$ 18,941,311</u>

\$1,163,775 of golf course land is recorded under a capital lease with no accumulated depreciation.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

3. CAPITAL ASSETS, continued

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 53,691
Police	54,872
Public Works	87,639
Parks and recreation	20,603
Infrastructure	<u>69,815</u>
 Total depreciation expense	 <u>\$ 286,620</u>

4. LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Capital Lease Obligation – Kentucky Area Development Districts Financing Trusts

On March 22, 2006, the City entered into a lease agreement in the amount of \$1,250,000 with the Kentucky Area Development Districts Financing Trusts for the financing and leasing of a community center and City Hall. The City may prepay principal components of lease rental payments in minimum amounts of \$50,000. The lease is to run for a term of 22 years with payments to be made semiannually. The lease carries a stated interest rate of 4.6% with bank fees of \$500 annually.

The minimum obligations of the above capital lease at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Bank Fee	Total
2012	\$ 45,000	\$ 51,750	\$ 500	\$ 97,250
2013	45,000	49,680	500	95,180
2014	50,000	47,610	500	98,110
2015	50,000	45,310	500	95,810
2016	55,000	43,010	500	98,510
2017-2021	310,000	175,490	2,500	487,990
2022-2026	385,000	97,290	2,500	484,790
2027-2028	<u>185,000</u>	<u>12,880</u>	<u>1,000</u>	<u>198,880</u>
Total	<u>\$ 1,125,000</u>	<u>\$ 523,020</u>	<u>\$ 8,500</u>	<u>\$ 1,656,520</u>

The total governmental activity debt is summarized as follows:

Accrued compensated absences	\$ 62,232
Current portion of capital lease obligation	<u>45,000</u>
 Total current portion of long-term obligations	 <u>\$ 107,232</u>
 Long-term portion	 <u>\$ 1,080,000</u>

A summary of changes in general government long-term debt is as follows:

	July 1, 2010	Additions	Payments	June 30, 2011
Capital lease obligations	\$ 1,170,000	\$ -	\$ 45,000	\$ 1,125,000
Accrued compensated absences	<u>62,232</u>	<u>62,232</u>	<u>62,232</u>	<u>62,232</u>
 Total	 <u>\$ 1,232,232</u>	 <u>\$ 62,232</u>	 <u>\$ 107,232</u>	 <u>\$ 1,187,232</u>

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

Business-Type Activities – Utility Commission

Capital Lease Obligation – PNC Bank

On September 24, 2010, the Commission entered into a lease agreement in the amount of \$2,284,645 with PNC Bank for the payoff of previous outstanding debt services to the Kentucky Infrastructure Authority (KIA), Kentucky League of Cities and Bedford Loan & Deposit Bank. The principal and interest payments are to be made from the income and revenues of the water and sewer system. PNC Bank shall hold a lien on the system's revenues until such lease and interest payments are paid in full. The lease bears interest at a rate of 3.07% with a maturity date of September 24, 2020.

The minimum obligations of the above lease at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 202,363	\$ 63,813	\$ 266,175
2013	208,925	57,251	266,175
2014	215,521	50,654	266,175
2015	222,326	43,849	266,175
2016	229,326	36,849	266,175
2017-2020	<u>1,058,216</u>	<u>73,030</u>	<u>1,131,248</u>
Total	<u>\$ 2,136,677</u>	<u>\$ 325,446</u>	<u>\$ 2,462,123</u>

The total business-type – utility commission activities long-term debt is summarized as follows:

Accrued compensated absences	\$ 16,197
Current portion of PNC capital lease	<u>202,363</u>
Total current portion of long-term obligations	<u>\$ 218,560</u>
Long-term portion of PNC capital lease	\$ 1,934,314
Customer deposits	<u>41,394</u>
Total long-term portion of long-term obligations	<u>\$ 1,975,708</u>

A summary of changes in utility long-term debt is as follows:

	July 1, 2010	Additions	Payments	June 30, 2011
Bedford Note Payable	\$ 477,826	\$ -	\$ 477,826	\$ -
KIA Note payable	296,588	-	296,588	-
Capital lease obligations	1,506,034	2,284,645	1,654,002	2,136,677
Accrued compensated absences	17,883	16,197	17,883	16,197
Customer deposits payable	<u>39,869</u>	<u>1,525</u>	<u>-</u>	<u>41,394</u>
Total	<u>\$ 2,338,200</u>	<u>\$ 2,302,367</u>	<u>\$ 2,446,299</u>	<u>\$ 2,194,268</u>

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES, continued

Business-Type Activities – Golf Course

Capital Lease Obligation – Kentucky Area Development Districts Financing Trusts

On March 28, 2007, the City entered into a lease agreement in the amount of \$1,175,000 with the Kentucky Area Development Districts Financing Trusts (KADD) to purchase 80+ acres which includes the back nine holes of the Eagle Creek Golf Course. The principal and interest payments are to be made from the revenues of the golf course.

The lease is a fixed rate lease and is to run for a term of twenty years with payments to be made monthly. The lease carries a stated interest rate of 4.8% with bank fees of \$500 annually.

In addition, \$500,000 has been pledged by the Wilborn Charitable Foundation over the next ten years with \$50,000 minimum payable each year.

The minimum obligations of the above capital lease at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Service Fee	Total
2012	\$ 10,000	\$ 54,480	\$ 500	\$ 64,980
2013	15,000	54,000	500	69,500
2014	15,000	53,280	500	68,780
2015	15,000	52,560	500	68,060
2016	15,000	51,840	500	67,340
2017-2021	160,000	247,680	2,500	410,180
2022-2026	720,000	155,280	2,500	877,780
2027	<u>185,000</u>	<u>8,880</u>	<u>500</u>	<u>194,380</u>
Total	<u>\$ 1,135,000</u>	<u>\$ 678,000</u>	<u>\$ 8,000</u>	<u>\$ 1,821,000</u>

Bonds Payable – City of LaGrange General Obligation Bonds of 2010

The City issued bonds dated March 1, 2010 in the amount of \$1,730,000. These bonds were used to pay off a previous bond issue from 2000. The bonds mature annually from March 1, 2010 to March 1, 2020, in various amounts from \$100,000 to \$210,000. Interest at 2-3.5% per annum is payable September 1 and March 1. Bonds maturing after March 1, 2011 are subject to early redemption provisions.

The bonds are payable from, and secured by, a pledge of gross revenues derived from the operation of the golf course. If the revenues from the golf course are not sufficient to cover the annual debt service, the City has agreed to levy and collect, each year that the bonds are outstanding, a bond tax in an amount sufficient to provide for the full payment of the principal and interest of the bonds.

The minimum obligations of the above bonds at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 145,000	\$ 52,400	\$ 197,400
2013	165,000	49,428	214,428
2014	170,000	45,385	215,385
2015	175,000	40,710	215,710
2016	180,000	35,548	215,548
2017-2020	<u>795,000</u>	<u>77,910</u>	<u>872,910</u>
Total	<u>\$ 1,630,000</u>	<u>\$ 301,381</u>	<u>\$ 1,931,381</u>

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES, continued

Business-Type Activities – Golf Course, continued

On September 18, 2008, the Golf Course entered into a 48 month capital lease for various equipment. The lease calls for monthly payments of \$2,892 including interest at a rate of 5.5%. The minimum obligations of the lease at June 30, 2010 are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 33,011	\$ 1,692	\$ 34,703
2013	<u>11,434</u>	<u>134</u>	<u>11,568</u>
Total	<u>\$ 44,445</u>	<u>\$ 1,826</u>	<u>\$ 46,271</u>

The total business-type - golf course activities debt is summarized as follows:

Current portion of capital lease	\$ 10,000
Current portion of bond	145,000
Current portion of capital equipment lease	<u>33,011</u>
Total current portion of long-term obligations	<u>\$ 188,011</u>
Long-term portion of capital lease	\$ 1,125,000
Long-term portion of bonds	1,485,000
Long-term portion of capital equipment lease	<u>11,434</u>
Total long-term obligations	<u>\$ 2,621,434</u>

A summary of changes in golf course long-term debt is as follows:

	July 1, 2010	Additions	Payments	June 30, 2011
Capital lease	\$ 1,145,000	\$ -	\$ 10,000	\$ 1,135,000
Bond issue	1,730,000	-	100,000	1,630,000
Capital equipment lease	<u>75,608</u>	<u>-</u>	<u>31,163</u>	<u>44,445</u>
Total	<u>\$ 2,950,608</u>	<u>\$ -</u>	<u>\$ 141,163</u>	<u>\$ 2,809,445</u>

6. OPERATING LEASE

On March 11, 2009, the golf course entered into an operating lease with Yamaha Motor Corporation USA to lease 58 golf carts. The lease terms call for 24 payments of \$7,283, including interest at a rate of 5.24%. The payments are made six months at a time, from May through October. The future lease obligations at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 42,294	\$ 1,404	\$ 43,698
2013	<u>28,785</u>	<u>315</u>	<u>29,100</u>
Total	<u>\$ 71,079</u>	<u>\$ 1,719</u>	<u>\$ 72,798</u>

Operating lease expense for the year ended June 30, 2011, totaled \$ 40,173.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

7. RETIREMENT PLAN

The City of LaGrange is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2011, plan members were required to contribute 8.00% of wages for hazardous and 5.00% for non-hazardous job classifications and 6% for non-hazardous employees hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

For the year ended June 30, 2011 participating employers contributed 33.25% of each hazardous employee's and 16.93% of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous year are as follows:

Year	Required Contribution	Percentage Contributed
2011	\$ 453,645	100%
2010	\$ 451,901	100%
2009	\$ 387,561	100%

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied in September 2010 on the assessed property located in the City of LaGrange as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Due Date
1. Due date for payment	Upon receipt
2. Discount of 2%	November 15
3. Face value payment period	December 15
4. 10% penalty delinquent date	December 16

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Oldham County and are due and collected in the birth month of the licensee.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

9. PROPERTY LEASE

The City and the LaGrange Fire Protection District have a lease agreement for a fire station (Fire Station No. 1), that covers the periods from July 1, 2008 through June 30, 2011. The lease began on July 1, 2008 and required no payments until November 1, 2009. From November 1, 2009 through June 30, 2011, the monthly rental payment to the City is \$2,500.

10. ECONOMIC DEPENDENCE

The Commission purchases water at wholesale from the Oldham County Water District, which in turn is sold to the Commission's customers. The Commission purchased water at a rate of \$1.70 per 1,000 gallons during 2011 and 2010.

11. RISK MANAGEMENT

The City of LaGrange is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the City also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. INVESTMENT IN JOINT VENTURE – OLDHAM-LAGRANGE DEVELOPMENT AUTHORITY

Oldham-LaGrange Development Authority (OLDA) was formed as a non-profit, non-stock corporation as provided by the Local Industrial Development Authority Act under KRS 154.50. The City of LaGrange, Kentucky and the County of Oldham, Kentucky formed the Development Authority via an Interlocal Cooperation Agreement. The purpose of the Development Authority is to promote economic development and create jobs within the boundaries of the City and County by financing, through the combined government authority, the acquisition and development of property.

The City of LaGrange issued General Obligation Lease Revenue Notes, 2005 Series A, 2005 Series B, 2005 Series C, and 2005 Series D dated July 1, 2005 for \$10,000,000 for the purchase of land and infrastructure improvements thereto, by way of the Development Authority. The proceeds were turned over to the Oldham-LaGrange Development Authority. The Lease Revenue Notes are to be paid with the proceeds from the sale and use of property managed by the Development Authority.

On December 1, 2008, OLDA, through the City of LaGrange, issued \$5,215,000 of general obligation lease revenue refunding bonds. The bonds were issued to (1) purchase an escrow scheduled to mature at such times and in such amounts as are necessary and will be adequate, with investment or reinvestment thereof, to meet the currently scheduled interest requirements of the 2005 Series C bonds and (2) pay or refund in advance of maturity, the remaining principal, accrued interest and premium of the City of LaGrange bonds, Series of 2005 A and B, dated August 3, 2005 and (3) pay the bond issuance expenses.

On January 21, 2010, the Oldham-LaGrange Development authority through the City of LaGrange, issued \$7,555,000 of general obligation lease revenue refunding bonds. The bonds were issued to (1) purchase an escrow scheduled to mature at such times and in such amounts as are necessary and will be adequate, with investment or reinvestment thereof, to meet the currently scheduled interest requirements of the 2010 series bonds and (2) pay or refund in advance of maturity, the remaining principal, accrued interest and premium of the City of LaGrange bonds, Series of 2005 C, dated August 3, 2005 and Series 2008 bonds dated December 1, 2008 and (3) pay the bond issuance expenses.

CITY OF LAGRANGE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

12. JOINT VENTURE – OLDHAM-LAGRANGE DEVELOPMENT AUTHORITY, continued

Oldham-LaGrange Development Authority issues separate financial statements available through its administrative office at 412 East Main Street, LaGrange, KY 40031 or by telephone at (502) 225-6420. Summarized totals for the Development Authority from its audited financial statements for the year ended June 30, 2011 are as follows:

Total assets	\$ 16,620,324
Total liabilities	\$ 20,300,701
Total net assets	(\$ 3,680,377)

The net equity investment in Oldham-LaGrange Development Authority for the City of LaGrange at June 30, 2011 is \$1,619,475. The net equity is determined by the following:

	OLDA Audit 6/30/2011	City Allocation	County Allocation
Beginning net equity, July 1, 2010	(\$ 3,319,621)	(\$ 1,431,241)	(\$ 1,888,380)
Operating loss before transfers in	(575,984)	(287,992)	(287,992)
Principal payments transfers in	<u>215,228</u>	<u>99,758</u>	<u>115,470</u>
Ending net equity, June 30, 2011	<u>(\$ 3,680,377)</u>	<u>(\$ 1,619,475)</u>	<u>(\$ 2,060,902)</u>

At June 30, 2011, the City guaranteed \$10,019,845 of the \$20,381,697 general obligation lease revenue bonds and notes outstanding.

13. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Sick Leave - The City's sick leave policy permits the accumulation of twelve sick days per year up to a maximum of 70 days for full time employees. Employees are not paid for unused sick leave days upon termination of employment. However, if an employee (who was hired after October 5, 1998) retires from the City with 15 years (20 years for the utility commission) or more of service, the City will contribute the employer match percent (currently 16.93% for non-hazardous duty and 33.25% for hazardous duty) of the unused sick days monetary amount to the County Employees Retirement System. The employee does not receive any remuneration for sick time credit upon termination. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for any contingent liabilities associated with estimated unused sick leave. At June 30, 2011, the City and Utility Commission had an unrecorded sick pay liability to its employees of \$192,181 and \$72,746, respectively. The estimated liability includes required salary related payments.

The City has evaluated and considered the need to recognize or disclose subsequent events through June 25, 2012, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2011, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF LAGRANGE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ORIGINAL BUDGET				
TAXES				
General property taxes	\$ 1,244,000	\$ 1,244,000	\$ 1,250,013	\$ 6,013
Bank shared tax	4,000	4,000	49,862	45,862
Omitted tangibles	4,000	4,000	10,410	6,410
Motor vehicle taxes	<u>95,000</u>	<u>95,000</u>	<u>107,300</u>	<u>12,300</u>
Total municipal taxation	<u>1,347,000</u>	<u>1,347,000</u>	<u>1,417,585</u>	<u>70,585</u>
LICENSES, PERMITS AND BILLINGS				
Business licenses	240,000	240,000	216,779	(23,221)
Insurance premiums	1,235,000	1,235,000	1,200,034	(34,966)
Franchise fees	320,000	320,000	297,752	(22,248)
Other licenses	<u>23,000</u>	<u>23,000</u>	<u>22,067</u>	<u>(933)</u>
Total licenses, permits and billings	<u>1,818,000</u>	<u>1,818,000</u>	<u>1,736,632</u>	<u>(81,368)</u>
INTERGOVERNMENTAL REVENUES				
Grants	17,000	17,000	16,400	(600)
KLEFPF	52,300	52,300	36,088	(16,212)
Federal overtime	6,000	6,000	11,869	5,869
LGEAF	<u>4,500</u>	<u>4,500</u>	<u>3,221</u>	<u>(1,279)</u>
Total intergovernmental	<u>79,800</u>	<u>79,800</u>	<u>67,578</u>	<u>(12,222)</u>
CHARGES FOR SERVICE				
Sanitation fees	<u>340,000</u>	<u>340,000</u>	<u>325,276</u>	<u>(14,724)</u>
OTHER REVENUE				
Donations		-	2,413	2,413
Interest	5,000	5,000	3,328	(1,672)
Penalties	14,000	14,000	4,708	(9,292)
Encroachment fees	8,000	8,000	4,300	(3,700)
Rent	4,500	4,500	34,600	30,100
Miscellaneous	<u>529,763</u>	<u>529,763</u>	<u>112,933</u>	<u>(416,830)</u>
Total other	<u>561,263</u>	<u>561,263</u>	<u>162,282</u>	<u>(398,981)</u>
TOTAL REVENUE	<u>\$ 4,146,063</u>	<u>\$ 4,146,063</u>	<u>\$ 3,709,353</u>	<u>\$ (436,710)</u>

CITY OF LAGRANGE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL GOVERNMENT				
Salaries	\$ 146,176	\$ 146,176	\$ 100,977	\$ (45,199)
Overtime	3,000	3,000	1,373	(1,627)
Employee Insurance	24,000	24,000	21,403	(2,597)
Employer portion FICA	13,000	13,000	10,053	(2,947)
Employer portion Medicare	3,000	3,000	2,281	(719)
Mayor/Council	60,480	60,480	60,480	-
Employer portion retirement	22,000	22,000	15,689	(6,311)
Unemployment insurance	-	-	14,018	14,018
Computer maintenance	10,000	10,000	6,881	(3,119)
Tax preparation (PVA)	30,000	30,000	29,548	(452)
Ordinance codification	5,000	5,000	1,804	(3,196)
Workers compensation	7,000	7,000	7,306	306
Property/liability insurance	46,000	46,000	59,986	13,986
Auditing	16,000	16,000	20,575	4,575
Gas/electric/telephone	83,000	83,000	83,738	738
Legal fees	10,000	10,000	47,640	37,640
Legal fees - city council	10,000	10,000	1,152	(8,848)
Legal advertisements	5,000	5,000	8,089	3,089
Legal fees - delinquent taxes	-	-	(2)	(2)
Office supplies	8,000	8,000	5,473	(2,527)
Repair and maintenance	5,000	5,000	4,821	(179)
Seminars/education	6,000	6,000	5,117	(883)
Miscellaneous	10,000	10,000	10,383	383
Small equipment purchases	2,000	2,000	729	(1,271)
Grant expense - Main Street	443,000	443,000	8,927	(434,073)
Board of adjustments and appeals	2,000	2,000	-	(2,000)
Engineering	12,000	12,000	7,734	(4,266)
Printing	500	500	-	(500)
Storm water	5,000	5,000	86	(4,914)
	<u>987,156</u>	<u>987,156</u>	<u>536,261</u>	<u>(450,895)</u>
Total administration				
POLICE				
Police salaries	574,755	574,755	619,008	44,253
Overtime salaries	20,000	20,000	19,016	(984)
Federal overtime	6,000	6,000	-	(6,000)
KLEFPF	43,000	43,000	40,152	(2,848)
Employee insurance	125,000	125,000	136,421	11,421
Employer portion FICA	42,000	42,000	37,891	(4,109)
Employer portion Medicare	9,500	9,500	8,973	(527)
Employer portion Retirement	235,000	235,000	214,708	(20,292)
Workers compensation	38,000	38,000	29,706	(8,294)
Automobile insurance	33,000	33,000	28,292	(4,708)
Liability insurance	41,000	41,000	30,336	(10,664)
Radio maintenance	3,000	3,000	4,721	1,721
Computer maintenance	4,000	4,000	3,233	(767)
Seminars and education	9,000	9,000	11,632	2,632
Uniform expense	18,000	18,000	7,084	(10,916)
Miscellaneous	20,000	20,000	26,748	6,748
Crime prevention	5,000	5,000	4,078	(922)
Criminal investigations	3,000	3,000	4,084	1,084
Firing range expense	3,000	3,000	3,969	969
Small equipment purchases	4,000	4,000	7,925	3,925
Gas and oil	26,000	26,000	40,579	14,579
Equipment repairs	25,000	25,000	26,954	1,954
Drug enforcement funds	1,500	1,500	495	(1,005)
Dry cleaning	2,000	2,000	1,532	(468)
Telephone/cellular/pagers	6,000	6,000	7,634	1,634
Emergency notification	17,000	17,000	16,162	(838)
	<u>1,313,755</u>	<u>1,313,755</u>	<u>1,331,333</u>	<u>17,578</u>
Total police department				
SANITATION				
	<u>293,000</u>	<u>293,000</u>	<u>319,002</u>	<u>26,002</u>
PARKS AND RECREATION				
	<u>165,000</u>	<u>165,000</u>	<u>164,655</u>	<u>(345)</u>

CITY OF LAGRANGE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
PUBLIC WORKS				
Salaries	\$ 320,675	\$ 320,675	\$ 320,665	\$ (10)
Overtime salaries	10,000	10,000	10,456	456
Employee insurance	83,000	83,000	99,543	16,543
Employer portion FICA	21,000	21,000	18,620	(2,380)
Employer portion Medicare	5,500	5,500	4,401	(1,099)
Employer portion Retirement	56,000	56,000	55,030	(970)
Workers Compensation	25,000	25,000	26,500	1,500
Vehicle insurance	19,000	19,000	19,092	92
Utilities	10,000	10,000	16,313	6,313
Seminars/Education	1,000	1,000	126	(874)
Uniforms	5,000	5,000	5,244	244
Small equipment purchases	2,000	2,000	2,752	752
Gas and oil	13,000	13,000	15,856	2,856
Equipment/vehicle repairs	14,000	14,000	10,266	(3,734)
Computer maintenance	1,000	1,000	197	(803)
Crushed rock	3,000	3,000	2,876	(124)
Signs and posts	7,500	7,500	903	(6,597)
Sidewalks	25,000	25,000	3,868	(21,132)
Drainage	15,000	15,000	717	(14,283)
Paving material	50,000	50,000	4,452	(45,548)
Street paint	4,500	4,500	85	(4,415)
Snow removal	30,000	30,000	408	(29,592)
Grounds maintenance	10,000	10,000	5,887	(4,113)
Equipment rental	1,000	1,000	964	(36)
Tires and batteries	2,000	2,000	1,367	(633)
Miscellaneous	2,000	2,000	1,424	(576)
Special projects	-	-	-	-
CDL license	1,300	1,300	-	(1,300)
Contract help	10,000	10,000	-	(10,000)
Safety	3,200	3,200	1,321	(1,879)
Street lighting	2,000	2,000	398	(1,602)
	<u>752,675</u>	<u>752,675</u>	<u>629,731</u>	<u>(122,944)</u>
Total public works				
COMMUNITY DEVELOPMENT				
Main street	10,000	10,000	10,131	131
Discover downtown LaGrange	25,000	25,000	28,475	3,475
Senior citizens	5,000	5,000	5,000	-
Economic development, OLDA	225,000	225,000	243,950	18,950
Historic preservation	2,500	2,500	3,681	1,181
Tree replacement	1,500	1,500	684	(816)
GIS and surveying	5,000	5,000	5,000	-
Mayor's discretionary	1,000	1,000	1,108	108
Elementary school - library	2,000	2,000	2,000	-
Festivals - Christmas, OC Day	5,000	5,000	4,960	(40)
Special projects/vision/clinic	5,452	5,452	5,426	(26)
HDB bus transportation	30,000	30,000	30,000	-
Elementary school - other	17,000	17,000	17,000	-
Hwy 53 study and greenways	20,000	20,000	320	(19,680)
	<u>354,452</u>	<u>354,452</u>	<u>357,735</u>	<u>3,283</u>
Total special appropriations				
PUBLIC PROPERTIES				
Salaries	22,609	22,609	28,118	5,509
Overtime	-	-	-	-
Employer portion FICA	1,500	1,500	1,243	(257)
Employer portion Medicare	375	375	295	(80)
Employer portion Retirement	4,000	4,000	3,754	(246)
Health insurance	4,000	4,000	-	(4,000)
Workers compensation	1,000	1,000	-	(1,000)
Tools and equipment	2,500	2,500	1,287	(1,213)
Gas and oil	2,100	2,100	1,501	(599)
Truck repairs	2,000	2,000	554	(1,446)
Repairs/maintenance on blue house	1,000	1,000	602	(398)
Electric/telephone on blue house	2,500	2,500	2,559	59
Repairs/maintenance 208/210 Main St	3,000	3,000	1,631	(1,369)
	<u>46,584</u>	<u>46,584</u>	<u>41,544</u>	<u>(5,040)</u>
Total public properties				
CAPITAL OUTLAY				
General - equipment	10,000	10,000	7,620	(2,380)
Police - equipment	40,000	40,000	23,558	(16,442)
Public works - equipment	75,000	75,000	60,377	(14,623)
Public works - building	82,000	82,000	85,711	3,711
Parks and recreation	-	-	67,381	67,381
	<u>207,000</u>	<u>207,000</u>	<u>244,647</u>	<u>37,647</u>
Total capital outlay				
TOTAL EXPENDITURES	\$ 4,119,622	\$ 4,119,622	\$ 3,624,908	\$ (494,714)

CITY OF LAGRANGE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
OTHER GOVERNMENTAL FUNDS
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL ROAD AID FUND				
REVENUES				
Fund Payments	\$ 110,000	\$ 110,000	\$ 112,673	\$ 2,673
Interest	2,300	10,000	1,531	(8,469)
Carryover	100,000	-	-	-
TOTAL REVENUE	<u>\$ 212,300</u>	<u>\$ 120,000</u>	<u>\$ 114,204</u>	<u>\$ (5,796)</u>
EXPENDITURES				
Street repair and maintenance	\$ 40,000	\$ 40,000	\$ 94,549	\$ 54,549
TOTAL EXPENDITURES	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 94,549</u>	<u>\$ 54,549</u>
DEBT SERVICE FUND				
REVENUES				
Interest	\$ -	\$ -	\$ 10	\$ 10
Transfers in	230,000	-	99,320	99,320
TOTAL REVENUE	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ 99,330</u>	<u>\$ 99,330</u>
EXPENDITURES				
Debt service	\$ 428,341	\$ 428,341	\$ 99,320	\$ (329,021)
TOTAL EXPENDITURES	<u>\$ 428,341</u>	<u>\$ 428,341</u>	<u>\$ 99,320</u>	<u>\$ (329,021)</u>
CAPITAL PROJECTS FUND				
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	-	-
TOTAL REVENUE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES				
Capital outlay	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-
Transfers out	-	-	(11,659)	(11,659)
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,659)</u>	<u>\$ (11,659)</u>
PARKS BOARD FUND				
REVENUES				
Interest	\$ -	\$ -	\$ 123	\$ 123
Transfers in	-	-	-	-
TOTAL REVENUE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123</u>	<u>\$ 123</u>
EXPENDITURES				
Debt service	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF LAGRANGE, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2011**

	Municipal Road Aid Fund	Debt Service Fund	Capital Projects Fund	Foundations and Parks Fund	Total
ASSETS					
Assets					
Cash	\$ 279,795	\$ 5,104	\$ 76,779	\$ 39,855	\$ 401,533
Accounts receivable	10,188	-	-	-	10,188
Due from other fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 289,983</u>	<u>\$ 5,104</u>	<u>\$ 76,779</u>	<u>\$ 39,855</u>	<u>\$ 411,721</u>
 LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	-	-	-	-	-
Fund balance	<u>289,983</u>	<u>5,104</u>	<u>76,779</u>	<u>39,855</u>	<u>411,721</u>
Total liabilities and fund balance	<u>\$ 289,983</u>	<u>\$ 5,104</u>	<u>\$ 76,779</u>	<u>\$ 39,855</u>	<u>\$ 411,721</u>

CITY OF LAGRANGE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL NONMAJOR FUNDS
for the year ended June 30, 2011

	Municipal Road Aid Fund	Debt Service Fund	Capital Projects Fund	Foundations and Parks Fund	Total
REVENUES					
Intergovernmental revenues	\$ 112,673	\$ -	\$ -	\$ -	\$ 112,673
Other revenues	<u>1,531</u>	<u>10</u>	<u>-</u>	<u>123</u>	<u>1,664</u>
Total revenues	<u>114,204</u>	<u>10</u>	<u>-</u>	<u>123</u>	<u>114,337</u>
EXPENDITURES					
Capital outlay	94,549	-	-	-	94,549
Debt service	<u>-</u>	<u>99,320</u>	<u>-</u>	<u>-</u>	<u>99,320</u>
Total expenditures	<u>94,549</u>	<u>99,320</u>	<u>-</u>	<u>-</u>	<u>193,869</u>
Excess revenues over (under) expenditures before other sources (uses)	<u>19,655</u>	<u>(99,310)</u>	<u>-</u>	<u>123</u>	<u>(79,532)</u>
Other financing sources					
Transfers in (out)	<u>-</u>	<u>99,320</u>	<u>(11,659)</u>	<u>-</u>	<u>87,661</u>
Total other financing sources	<u>-</u>	<u>99,320</u>	<u>(11,659)</u>	<u>-</u>	<u>87,661</u>
Excess revenues and other sources over (under) expenditures	19,655	10	(11,659)	123	8,129
Fund balances, July 1, 2010	<u>270,328</u>	<u>5,094</u>	<u>88,438</u>	<u>39,732</u>	<u>403,592</u>
FUND BALANCES - JUNE 30, 2011	<u>\$ 289,983</u>	<u>\$ 5,104</u>	<u>\$ 76,779</u>	<u>\$ 39,855</u>	<u>\$ 411,721</u>

CITY OF LAGRANGE, KENTUCKY
INDEPENDENT AUDITORS' 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*

To the Mayor and City Council
City of LaGrange, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information City of LaGrange, Kentucky as of and for the year ended June 30, 2011, which collectively comprise the City of LaGrange, Kentucky's basic financial statements and have issued our report thereon dated June 25, 2012. Our opinion on the financial statements and this report, insofar as they relate to the Utility Commission of the City of LaGrange are based solely on the report of other auditors. 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 LaGrange, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of LaGrange, 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 LaGrange, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of LaGrange, Kentucky's internal control.

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 deficiencies, significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 believe that deficiency 2011-1, listed in the schedule of findings and responses, to be a material weakness.

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. We consider the significant deficiency 2011-2, listed in the schedule of findings and responses, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of LaGrange, 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 no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

The City of LaGrange, Kentucky's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of LaGrange, Kentucky's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley and Company
Ray, Foley, Hensley and Company, PLLC
June 25, 2012

CITY OF LAGRANGE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

FINDINGS:

2011-01 (Recurring)

The City is required to have internal controls in place that enable it to apply generally accepted accounting principles to its transactions. Specifically, this includes interfund transactions, payments-on-behalf of the City, accounting for property taxes and year-end accrual transactions.

The City executes basic and routine transactions throughout the year, however, the City does not apply generally accepted accounting principles to certain non-routine transactions recorded during the year and in making its year-end accruals.

Management relied on the auditor's year-end adjustments to bring the City's accounting records into compliance with generally accepted accounting principles. Management reviewed, approved and accepted responsibility for the adjusting journal entries prior to the issuance of the financial statements.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to advise the City during the year concerning non-routine transactions and to assist the City with its year-end close so that the City's accounting records will be in compliance with generally accepted accounting principles.

Response:

This is an ongoing finding. Management has determined that it is the most cost effective to continue to rely on the auditor's adjustments to bring the City's accounting records into compliance with generally accepted accounting principles.

2011-02 (Recurring)

The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principle.

The City lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response:

This is an ongoing finding. Management has determined that it is the most cost effective to continue to engage the auditor to draft the financial statements and related notes.