

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2011

**CITY OF ALBANY, KENTUCKY
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For the Year Ended June 30, 2011**

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**CITY OF ALBANY
204 CROSS STREET
ALBANY, KENTUCKY
(606) 387-6011**

CITY OFFICIALS AND OFFICERS

MAYOR

John N. Smith

MEMBERS OF COUNCIL

Steve Lawson

Tony Delk

Tonya Thrasher

James Smith

Mary Faye Stockton

Frankie Stockton

OFFICERS

Melissa P. Smith

City Clerk/Treasurer

Norbert H. Sohm

City Attorney

Ernest Guffey

Chief of Police

Robert Roper

Fire Chief

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

This discussion and analysis of the City of Albany's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

The assets of the City exceeded its liabilities by \$27,347,020

The City's total net assets increased by \$270,584 during the year.

The City's total long-term debt decrease by \$131,320 during the fiscal year.

The City's cash decreased by \$310,708 during the year due primarily to ongoing construction projects.

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) Fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the City, including infrastructure, as well as all liabilities, including long-term debt.

The Fund Financial Statements include statements for each of the two categories of governmental and business-type. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses.

They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the city's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities-The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with City government fall into this category, including general government, public safety, street, and parks and recreation.

Business-Type Activities-These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of water, sewage and sanitation system.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other city and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into two categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The two categories of funds are:

Governmental Funds Financial Statements-Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the City's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the City.

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011

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

Proprietary Funds Financial Statements - These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements used the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the Statement of Cash Flows.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011

Financial Overview - Statement of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets totaled \$25,945,664 at the end of 2011, compared to \$25,489,029 at the end of the previous year.

The largest portion of the City's net assets reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding.

At the end of the current fiscal year, the City is able to report positive balance in the governmental and business-type activities. The same situation held true for prior fiscal year.

Governmental Activities				
	2011	2010	Change	% Change
Current Assets	\$ 564,328	\$ 650,486	\$ (86,158)	-13.25%
Noncurrent Assets	913,870	994,567	(80,697)	-8.11%
Total Assets	1,478,198	1,645,053	(166,855)	-10.14%
Current Liabilities	76,842	57,646	19,196	33.30%
Noncurrent Liabilities	0	0	0	0.00%
Total Liabilities	76,842	57,646	19,196	33.30%
Invested in Capital				
Assets, Net	791,106	886,453	(95,347)	-10.76%
Restricted	122,764	108,114	14,650	13.55%
Unrestricted	487,486	592,840	(105,354)	-17.77%
Total Net Assets	\$ 1,401,356	\$ 1,587,407	\$ (186,051)	-11.72%

Business-Type Activities				
	2011	2010	Change	% Change
Current Assets	\$ 823,130	\$ 768,986	\$ 54,144	7.04%
Noncurrent Assets	31,583,361	31,203,566	379,795	100.00%
Total Assets	32,406,491	31,972,552	433,939	1.36%
Current Liabilities	1,111,847	1,000,423	111,424	11.14%
Noncurrent Liabilities	5,348,980	5,483,100	(134,120)	100.00%
Total Liabilities	6,460,827	6,483,523	(22,696)	-0.35%
Invested in Capital				
Assets, Net	25,780,674	25,083,827	696,847	2.78%
Restricted	243,707	429,439	(185,732)	-43.25%
Unrestricted	(78,717)	(24,237)	(54,480)	224.78%
Total Net Assets	\$ 25,945,664	\$ 25,489,029	\$ 456,635	1.79%

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011

Financial Overview - Statement of Activities

Approximately 51 percent of the City's total revenue resulted from charges for services, while 19 percent were from taxes. Charges for various sources, investment income and grant income provided 30 percent of the total revenues. The City's expenses cover a range of services. The largest expenses were for public safety, street maintenance, water, and sewer. Governmental activity expenses exceeded revenues by \$186,051 mainly to a decrease of insurance premiums. Business-type activity revenues exceeded expenses by \$446,635 due to the receipt of additional grant revenues.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>2010</u>	<u>Difference</u>
Revenues:					
Charges for Services	\$ 43,031	\$ 2,270,735	\$ 2,313,766	\$ 2,353,202	\$ (39,436)
Taxes	146,545	0	146,545	135,279	11,266
Licenses	732,960	0	732,960	852,674	(119,714)
Intergovernmental Revenue	90,073	0	90,073	78,205	11,868
Grants	15,940	1,069,730	1,085,670	2,991,191	(1,905,521)
Other	35,110	119,825	154,935	168,236	(13,301)
Total Revenues	<u>1,063,659</u>	<u>3,460,290</u>	<u>4,523,949</u>	<u>6,578,787</u>	<u>(2,054,838)</u>
Expenses:					
Administration	222,785	0	222,785	196,482	26,303
Police	524,431	0	524,431	490,550	33,881
Fire	131,116	0	131,116	138,308	(7,192)
Street	371,378	0	371,378	338,735	32,643
Water	0	2,552,575	2,552,575	2,596,631	(44,056)
Sewer	0	451,080	451,080	388,947	62,133
Total Expenses	<u>1,249,710</u>	<u>3,003,655</u>	<u>4,253,365</u>	<u>4,149,653</u>	<u>103,712</u>
Change in Net Assets	(186,051)	456,635	270,584	2,429,134	(2,158,550)
Net Assets, Beginning of Year	<u>1,587,407</u>	<u>25,489,029</u>	<u>27,076,436</u>	<u>24,647,302</u>	<u>2,429,134</u>
Net Assets, End of Year	<u>\$ 1,401,356</u>	<u>\$ 25,945,664</u>	<u>\$ 27,347,020</u>	<u>\$ 27,076,436</u>	<u>\$ 270,584</u>

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011**

Governmental Activities and Business Type Activities

Governmental activities decreased the City's net assets by \$186,051. This resulted from a decrease in insurance premium revenues. Business-type activities increased the City's net assets by \$456,635. This resulted from the receipt of additional grant revenues.

Financial Analysis of the City's Funds

The fund balance at year-end for the City's General Fund decreased by \$180,070 primarily due to a decrease in insurance premium taxes.

The fund balance at year-end for the Special Revenue Fund increased by \$12,524 primarily due to an increase in road aid funding.

General Fund Budgetary Highlights

The budget was amended in June 2011 to allow for additional expenses.

Appropriations exceeded budgeted revenues for the year causing the City to draw upon existing fund balance.

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2011**

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$42,881,465, net of accumulated depreciation of \$10,750,704, leaving a net book value of \$32,130,761. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about \$470,181. Actual expenditures to purchase or construct capital assets were \$1,318,478 for the year. Depreciation charges for the year totaled \$848,294. Additional information on the City's capital assets can be found in Note 5 of the notes to the financial statements of this report.

Debt Administration

The City of Albany's total debt decreased by \$131,320 during the current fiscal year. No general obligation or revenue bonds were issued during the year. Additional information on the City's long-term debt obligations can be found in Note 4 of the notes to the financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

Inflationary trends in the region compare favorably to national indices. The unemployment rate for the City compares favorably to the nation's average unemployment rate. Any economic slow down could result in revenue forecasts having to be revised downward.

Currently, the City does anticipate an increase in taxes or water rates. Future legislative changes, which can not be anticipated or predicted, will shape future decisions and either increase or decrease options available to the City to serve the community as a municipal power utility.

Request for Information

This financial report is designed to provide a general overview of the City of Albany's finances for all of the City's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**City of Albany
204 Cross Street
Albany, Kentucky 42717**

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SAMMY K. LEE, P.S.C.
Certified Public Accountant

501 Darby Creek, Unit 24
Lexington, Kentucky 40509
(859) 543-1587

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
City of Albany, Kentucky
Albany, Kentucky 42602

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Albany, Kentucky management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated November 8, 2011, on my consideration of the City of Albany, Kentucky's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albany, Kentucky financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Sammy K. Lee, P.S.C

Lexington, Kentucky
November 8, 2011

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 75,707	\$ 255,170	\$ 330,877
Accounts receivables, net:			
Customers	257	477,083	477,340
Other	2,115	3,524	5,639
Prepaid expenses	-	5,054	
Due from Water	486,249	-	486,249
Inventory	-	82,299	82,299
Total Current Assets	564,328	823,130	1,382,404
Noncurrent Assets			
Restricted cash and cash equivalents	122,764	243,707	366,471
Capital assets, net of accumulated depreciation	791,106	31,339,654	32,130,760
Total Noncurrent Assets	913,870	31,583,361	32,497,231
Total Assets	1,478,198	32,406,491	33,879,635
Liabilities			
Current Liabilities			
Accounts payable	20,947	92,885	113,832
Accrued expenses	55,895	87,387	143,282
Revenue bonds payable, current	-	210,000	210,000
Due to General	-	486,249	486,249
Accrued interest	-	120,282	120,282
Customer deposits payable	-	115,044	115,044
Total Current Liabilities	76,842	1,111,847	1,188,689
Noncurrent Liabilities			
Notes payable	-	219,780	219,780
Revenue bonds payable, noncurrent	-	5,129,200	5,129,200
Total Noncurrent Liabilities	-	5,348,980	5,348,980
Total Liabilities	76,842	6,460,827	6,537,669
Net Assets			
Investment in capital assets, net of related debt	791,106	25,780,674	26,571,780
Restricted	122,764	243,707	366,471
Unrestricted	487,486	(78,717)	408,769
Total Net Assets	\$ 1,401,356	\$ 25,945,664	\$ 27,347,020

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Government activities:					
General government	\$ 222,785	\$ -	\$ 15,940	\$ -	\$ (206,845)
Police	524,431	-	-	-	(524,431)
Fire	131,116	43,031	-	-	(88,085)
Street	371,378	-	-	-	(371,378)
Total	1,249,710	43,031	15,940	-	(1,190,739)
Business-type activities:					
Water	2,552,575	1,990,603	-	919,968	357,996
Sewer	451,080	280,132	-	149,762	(21,186)
Total	3,003,655	2,270,735	-	1,069,730	336,810
Total Activities	\$ 4,253,365	\$ 2,313,766	\$ 15,940	\$ 1,069,730	\$ (853,929)

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Assts			
Net (expense) revenue	<u>\$ (1,190,739)</u>	<u>\$ 336,810</u>	<u>\$ (853,929)</u>
General Revenues			
Taxes	146,545	-	146,545
Licenses, permits, fees	732,960	-	732,960
Intergovernmental	90,073	-	90,073
Fines, arrest fees, and permits	13,461	-	13,461
Other	21,649	119,825	141,474
Total Revenues	<u>1,004,688</u>	<u>119,825</u>	<u>1,124,513</u>
Change in Net Assets	(186,051)	456,635	270,584
Net Assets - Beginning	<u>1,587,407</u>	<u>25,489,029</u>	<u>27,076,436</u>
Net Assets - Ending	<u><u>\$ 1,401,356</u></u>	<u><u>\$ 25,945,664</u></u>	<u><u>\$ 27,347,020</u></u>

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CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 75,707	\$ -	\$ 75,707
Accounts receivable:			
Customers	257	-	257
Other	2,115	-	2,115
Due from water	486,249	-	486,249
Cash and cash equivalents - restricted	13,731	109,033	122,764
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 578,059</u></u>	<u><u>\$ 109,033</u></u>	<u><u>\$ 687,092</u></u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 20,947	\$ -	\$ 20,947
Accrued expenses	55,895	-	55,895
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>76,842</u>	<u>-</u>	<u>76,842</u>
Fund Balance			
Reserved	13,731	109,033	122,764
Unreserved	410,644	-	410,644
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>424,375</u>	<u>109,033</u>	<u>533,408</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u><u>\$ 501,217</u></u>	<u><u>\$ 109,033</u></u>	<u><u>\$ 610,250</u></u>

**CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total fund balance - total governmental funds	\$ 610,250
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Amounts reported for *government activities* in the statement of net assets are different because:

Capital assets of \$1,907,450, net accumulated depreciation of \$1,116,339, are not financial resources and, therefore are not reported in the funds.

791,106

Net assets of governmental activities	<u>\$ 1,401,356</u>
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CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 146,545	\$ -	\$ 146,545
Licenses, permits, & fees	732,960	-	732,960
Intergovernmental	44,636	61,377	106,013
Service charges	43,031	-	43,031
Fines, arrest fees, and permits	13,461	-	13,461
Other	21,649	-	21,649
Total Revenues	<u>1,002,282</u>	<u>61,377</u>	<u>1,063,659</u>
Expenditures			
General & administration department	215,718	-	215,718
Police department	476,832	10,000	486,832
Fire department	113,966	-	113,966
Street department	317,847	20,000	337,847
Total Expenditures	<u>1,124,363</u>	<u>30,000</u>	<u>1,154,363</u>
Net Change in Fund Balance	(122,081)	31,377	(90,704)
Fund Balance, Beginning of the Year	<u>561,087</u>	<u>139,867</u>	<u>700,954</u>
Fund Balance, End of Year	<u>\$ 439,006</u>	<u>\$ 171,244</u>	<u>\$ 610,250</u>

*(decrease)
lost*

**CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
June 30, 2011**

Net changes in fund balances - total governmental funds	\$ (90,704)
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Amounts reported for *government activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$22,923 was exceeded by depreciation of \$118,270 in the current period.

(95,347)

Change in net assets of governmental activities	<u>\$ (186,051)</u>
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CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
June 30, 2011

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>GOVERNMENTAL REVENUES</u>					
Taxes	\$ 115,000	\$ -	\$ 115,000	\$ 146,545	\$ 31,545
Licenses, permits, and fees	792,400	-	792,400	732,960	(59,440)
Intergovernmental	54,000	-	54,000	106,013	52,013
Fines, arrest fees, and permits	3,500	-	3,500	43,031	39,531
Service charge	36,000	-	36,000	13,461	(22,539)
Other	3,984	-	3,984	21,649	17,665
Total Revenues	<u>1,004,884</u>	<u>-</u>	<u>1,004,884</u>	<u>1,063,659</u>	<u>58,775</u>
<u>GOVERNMENTAL EXPENDITURES</u>					
General and Administrative	194,537	-	194,537	215,718	(21,181)
Police	496,377	-	496,377	486,832	9,545
Fire	99,120	-	99,120	113,966	(14,846)
Street	214,100	-	214,100	337,847	(123,747)
Total Expenses	<u>1,004,134</u>	<u>-</u>	<u>1,004,134</u>	<u>1,154,363</u>	<u>(150,229)</u>
Net Change in Fund Balance	750	-	750	(90,704)	(91,454)
Fund Balance - Beginning				<u>700,954</u>	<u>700,954</u>
<u>FUND BALANCE - ENDING</u>				<u>\$ 610,250</u>	<u>\$ 609,500</u>

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
June 30, 2011

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES</u>					
General & Administration:					
Salaries	\$ 90,000	\$ -	\$ 90,000	\$ 115,267	\$ (25,267)
Employee benefits	39,237	-	39,237	27,911	11,326
Professional services	11,500	-	11,500	7,705	3,795
Insurance	9,000	-	9,000	16,494	(7,494)
Office expense	4,000	-	4,000	14,087	(10,087)
Telephone and utilities	8,000	-	8,000	8,490	(490)
Travel and training	3,500	-	3,500	3,717	(217)
Repairs and maintenance	14,500	-	14,500	6,250	8,250
Miscellaneous	14,800	-	14,800	12,134	2,666
Capital outlay	-	-	-	3,663	(3,663)
Total General & Administration	\$ 194,537	\$ -	\$ 194,537	\$ 215,718	\$ (21,181)
Police Department:					
Salaries (including incentive pay)	\$ 280,000	\$ -	\$ 280,000	\$ 289,559	\$ (9,559)
Employee benefits	133,377	-	133,377	101,506	31,871
Vehicle expense	40,000	-	40,000	33,040	6,960
Insurance	5,000	-	5,000	6,999	(1,999)
Professional fees	2,000	-	2,000	2,326	(326)
Uniform, supplies and equipment	4,000	-	4,000	8,953	(4,953)
Dispatching	15,000	-	15,000	12,375	2,625
Telephone and utilities	7,000	-	7,000	13,442	(6,442)
Travel and training	4,000	-	4,000	1,857	2,143
Miscellaneous	3,000	-	3,000	2,582	418
Capital outlay	3,000	-	3,000	14,193	(11,193)
Total Police Department	\$ 496,377	\$ -	\$ 496,377	\$ 486,832	\$ 9,545

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
June 30, 2011

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
Fire Department:					
Salaries	\$ 28,320	\$ -	\$ 28,320	\$ 23,581	\$ 4,739
Employee benefits	1,800	-	1,800	2,583	(783)
Fire personnel allowance	30,000	-	30,000	38,632	(8,632)
Vehicle expense	19,500	-	19,500	22,229	(2,729)
Insurance	2,500	-	2,500	6,999	(4,499)
Travel and training	3,000	-	3,000	934	2,066
Supplies and equipment	5,000	-	5,000	3,038	1,962
Telephone and utilities	6,000	-	6,000	6,850	(850)
Miscellaneous	3,000	-	3,000	5,152	(2,152)
Capital outlay	-	-	-	3,968	(3,968)
Total Fire Department	<u>\$ 99,120</u>	<u>-</u>	<u>\$ 99,120</u>	<u>\$ 113,966</u>	<u>\$ (14,846)</u>
Street Department:					
Salaries	\$ 81,000	\$ -	\$ 81,000	\$ 107,737	\$ (26,737)
Employee benefits	56,600	-	56,600	32,483	24,117
Vehicle expense	5,000	-	5,000	6,839	(1,839)
Insurance	6,000	-	6,000	9,091	(3,091)
Uniforms and supplies	4,000	-	4,000	13,226	(9,226)
Street lighting	34,000	-	34,000	74,601	(40,601)
Repairs and maintenance	23,500	-	23,500	84,554	(61,054)
Miscellaneous	4,000	-	4,000	8,217	(4,217)
Capital outlay	-	-	-	1,099	(1,099)
Total Street Department	<u>\$ 214,100</u>	<u>\$ -</u>	<u>\$ 214,100</u>	<u>\$ 337,847</u>	<u>\$ (123,747)</u>

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	<u>Water & Sewer Utilities</u>	<u>Total Enterprise Funds</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 255,170	\$ 255,170
Accounts receivables, net:		
Customers	477,083	477,083
Other receivable	3,524	3,524
Inventory	82,299	82,299
Prepaid insurance	5,054	5,054
Total Current Assets	<u>823,130</u>	<u>823,130</u>
Noncurrent Assets		
Restricted cash	243,707	243,707
Capital assets, net of accumulated depreciation	31,339,654	31,339,654
Total Noncurrent Assets	<u>31,583,361</u>	<u>31,583,361</u>
Total Assets	<u>32,406,491</u>	<u>32,406,491</u>
Liabilities		
Current Liabilities		
Accounts payable	92,885	92,885
Accrued expenses	87,387	87,387
Revenue bonds payable, current	210,000	210,000
Due to General	486,249	486,249
Accrued interest	120,282	120,282
Customer deposits payable	115,044	115,044
Total Current Liabilities	<u>1,111,847</u>	<u>1,111,847</u>
Noncurrent Assets		
Notes payable	219,780	219,780
Revenue bonds payable, noncurrent	5,129,200	5,129,200
Total Noncurrent Assets	<u>5,348,980</u>	<u>5,348,980</u>
Total Liabilities	<u>6,460,827</u>	<u>6,460,827</u>
Net Assets		
Investment in capital assets, net of related debt	25,780,674	25,780,674
Restricted	243,707	243,707
Unrestricted	(78,717)	(78,717)
Total Net Assets	<u>\$ 25,945,664</u>	<u>\$ 25,945,664</u>

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	Water Utilities	Sewer Utilities	Total Enterprise Funds
Operating Revenues			
Charges for services	\$ 1,990,603	\$ 280,132	\$ 2,270,735
Miscellaneous	98,732	16,073	114,805
Total Operating Revenues	2,089,335	296,205	2,385,540
Operating Expenses			
Salaries	563,241	99,719	662,960
Employee benefits	258,512	41,545	300,057
Professional services	9,472	4,462	13,934
Repairs, parts, and supplies	111,411	12,955	124,366
Utilities and telephone	459,556	57,671	517,227
Lab and chemicals	216,562	18,824	235,386
Office expense	58,215	7,693	65,908
Vehicle expense	60,601	7,531	68,132
Insurance	17,655	22,900	40,555
Depreciation	591,635	138,389	730,024
Bad debt provision	21,104	2,801	23,905
Miscellaneous	3,878	5,152	9,030
Total Operating Expenses	2,371,842	419,642	2,791,484
Operating Income (Loss)	(282,507)	(123,437)	(405,944)
Nonoperating Revenues (Expenses)			
Interest income	4,317	703	5,020
Interest expense	(180,733)	(31,438)	(212,171)
Capital grants and contributions	919,968	149,762	1,069,730
Total Nonoperating Revenues (Expenses)	743,552	119,027	862,579
Change in Net Assets	\$ 461,045	\$ (4,410)	456,635
Net Assets - Beginning of the Year			25,489,029
Net Assets - End of Year			\$ 25,945,664

CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2011

Cash flows from operating activities:

Cash received from customers	\$ 2,227,930
Cash received from other sources	114,805
Cash payments to suppliers and vendors	(1,326,146)
Cash payments to employees	(656,255)
Net cash provided by operating activities	<u>360,334</u>

Cash flows from capital and related financing activities:

Cash received from loan	71,880
Cash received from interfund loans	70,539
Cash received from grants	1,069,730
Principal and interest paid on revenue bonds	(451,259)
Acquisition and construction of capital assets	(1,295,552)
Net cash used by capital and related financing activities	<u>(534,662)</u>

Cash flows from investing activities

Cash received from interest income	5,133
Net cash provided by investing activities	<u>5,133</u>

Net decrease in cash and cash equivalents **(169,195)**

Cash and cash equivalents at June 30, 2010 **668,072**

Cash and cash equivalents at June 30, 2011 **\$ 498,877**

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	<u>(405,944)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	753,929
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	(51,387)
(Increase) decrease in prepaid expenses	(5,054)
(Increase) decrease in inventory	(5,183)
Increase (decrease) in accounts payable	30,127
Increase (decrease) in accrued expenses	35,264
Increase (decrease) in customer deposits	8,582
Total Adjustments	<u>766,278</u>

Net cash provided by operating activities: **\$ 360,334**

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albany, Kentucky (the City) operates under a mayor-council form of government and provides the following services: Public Safety - Police and Fire, Public Works - Highways and Streets, Water and Sewer, Community Development, and General Administrative Services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Other significant governmental accounting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units were identified.

B. Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that is comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Accounting/Measurement Focus (continued)

Government-Wide Financial Statements (continued)

In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the City applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The city has presented all major funds that met those requirements. All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in the net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City are property tax, insurance premium tax, occupational license revenue, business license revenue, franchise fee revenue, intergovernmental revenues, interest, and other taxes. Fines and permits revenues are not susceptible to accrual because they are not measurable until received. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Investments

Investments are stated at cost and all investment activities are conducted through depository banks.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considers all checking accounts and certificate of deposits with a maturity of three months or less when purchased to be cash equivalents.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Capital Assets

The City's assets are capitalized at historical cost if historical records are available and at an estimated historical cost if no historical records exist. Donations or gifts of capital assets are valued at fair market value when received. Renewals and betterments are capitalized, but repairs and maintenance are recorded as expenditures. The sale or disposal of a capital asset is recorded by removing the asset's cost and related accumulated depreciation from the accounts and charging the resulting gain or loss to income.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of its current year infrastructure capital assets into the June 30, 2011 Basic Financial Statements. Infrastructure consists of roads, bridges, curbs, and gutters, streets and sidewalks, drainage systems and lighting systems.

Depreciation is recorded on a straight-line basis, with one-half year's depreciation in the year of acquisition, over the useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5 - 10 years
Water and Sewer System Utility Plants	25 - 40 years
Infrastructure	15 - 40 years

G. Budgets

The City Council adopts an annual budget for the General, Special Revenues, and Enterprise Funds. Any revisions that alter the budget must be approved by the City Council. For 2011, the original budget was approved during May 2010 and was amended in June 2011. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 120 hours. Earned vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the City.

As of June 30, 2011, the liability for accrued vacation leave is approximately \$41,238. This amount is included as a liability in the Government-Wide Financial Statements.

I. Accounts Receivable and Allowance for Doubtful Amounts

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowance for doubtful amounts.

Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenue due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily property taxes that are collected within sixty days after year-end.

Utilities receivable in enterprise funds represents water and sewer charges due at year-end, net of an allowance for doubtful amounts. The doubtful amounts are based on collection experience and a review of the status of existing receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

J. Fund Balance/Budget Deficits

At June 30, 2011, the City had no funds with a deficit fund balance.

K. Inventory

Proprietary inventory is stated at cost. Expenditures are determined using the first-in-first-out (FIFO) method, and are recorded when inventory is used.

L. Date of Management's Review

Subsequent events were evaluated through November 8, 2011, which is the date the financial statements were available to be issued.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 2. CASH DEPOSITS AND INVESTMENTS

At June 30, 2011, the carrying amounts of the City's cash deposit and investment accounts (including certificates of deposits), both restricted and unrestricted were \$697,348. The bank balances at June 30, 2011, were \$843,785 which were either insured or collateralized with securities held by pledging financial institutions in the City's name. Cash and investments, both restricted and unrestricted, at June 30, 2011 consisted of the following:

<u>Account</u>	<u>Interest Bearing</u>	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Operating	√	\$ 35,696	\$ 26,105	\$ 61,801
LGEAF	√	7,955	0	7,955
Municipal Road Aid	√	101,078	0	101,078
Dare Program	√	421	0	421
Drug Ratification	√	13,310	0	13,310
Depreciation Fund	√	0	19,825	19,825
Improvement and Refunding	√	0	98,438	98,438
Bald Rock Wells	√	0	0	0
Sinking Fund 2	√	0	2,058	2,058
Raw Water Intake KIA-HB	√	0	907	907
Raw Water Intake Exec Order	√	0	175	175
Regions Sinking Fund	√	0	122,304	122,304
Certificates of Deposit	√	40,011	229,065	269,076
Total:		<u>\$ 198,471</u>	<u>\$ 498,877</u>	<u>\$ 697,348</u>

Interest Rate Risk: Is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as means of managing its exposure to fair value losses arising from increasing interest rates. Management believes the City is not exposed to significant interest rate risk on investments.

Credit Risk: Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have a policy regarding the types of authorized investments that would ensure preservation of assets, only certificates of deposit and money market accounts are permitted. Management believes the City is not exposed to a significant credit risk.

Custodial Credit Risk: Is the risk that the Authority's deposits may not be returned in the event of bank failure. The Authority maintains its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC). As of June 30, 2011, the City's bank accounts in the amount of \$843,785 were covered by FDIC insurance or by securities pledged at market.

Concentration of Credit Risk: Is the risk of loss attributed to the magnitude of investment in a single issuer. Management does not believe the City is exposed to a significant concentration of credit risk.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 3. PROPERTY TAXES

The City elects to use the annual property assessment prepared by the County Property Valuation Administrator (PVA) as its base to apply the property tax rate. Property taxes of the City are billed each October on the basis of the preceding January property assessment values and are due no later than the following December. Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected.

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on November 1 immediately following the levy date and are delinquent after the following December 31. Tax liens are automatic on January 1 each year. The tax lien is part of a law suit for property that can be filed any time after taxes become delinquent. The City usually waits until July 1 to file suits on real estate property. A collection cost may be added to all delinquent accounts. Current collections for the year ended June 30, 2011 were at 98% of the tax levy.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible within sixty days following the close of the fiscal year, and therefore susceptible to accrual in accordance with accounting principles generally accepted in the United States of America, have been recognized as revenue. The city charter of the City of Albany, Kentucky does not provide for a debt limit, therefore, no computation can be made.

Lien Date	January 1
Levy Date	July 1 to June 30
Due Dates	November 1
Delinquent Dates	December 31

NOTE 4. BONDED DEBT

Issue	Interest Rates	Issue Date	Maturity Date	Original Amount	Retired in 2011	Outstanding 6/30/2011
91-10	4.5%	06/02/94	01/02/32	748,000	15,000	568,000
91-11	4.5%	12/05/96	01/02/36	500,000	8,500	412,000
91-15	5.0%	01/26/00	01/02/40	1,500,000	21,000	1,346,000
2004 D	3.06-4.56%	10/19/04	11/01/29	2,334,000	140,000	1,538,000
2004 A	4.5%	07/01/04	01/01/44	700,000	8,500	660,000
2004 B	4.5%	07/01/04	01/01/44	442,000	5,500	416,500
2005 B	4.5%	06/01/05	01/01/44	76,000	900	71,700
2005 A	4.5%	12/07/07	01/01/46	338,000	3,800	327,000
			Totals	\$ 6,638,000	\$ 203,200	\$ 5,339,200

audited

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT – CONTINUED

Water and Sewer Revenue Bonds with par value of 748,000 were issued in 1992 and mature annually on January 1, with a final maturity scheduled for the year 2032. Annual interest payments are due on December 31, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

Fiscal Year	Annual Requirements of Principal	Interest	Total Annual Requirements
2012	16,000	25,560	41,560
2013	16,500	24,840	41,340
2014	17,500	24,098	41,598
2015	18,500	23,310	41,810
2016	19,500	22,478	41,978
2017	20,500	21,600	42,100
2018	21,500	20,678	42,178
2019	22,500	19,710	42,210
2020	23,500	18,698	42,198
2021	25,000	17,640	42,640
2022	26,000	16,515	42,515
2023	27,500	15,345	42,845
2024	28,500	14,108	42,608
2025	30,000	12,825	42,825
2026	31,500	11,475	42,975
2027	33,000	10,058	43,058
2028	35,000	8,573	43,573
2029	36,500	6,998	43,498
2030	38,500	5,355	43,855
2031	40,500	3,623	44,123
2032	40,000	1,800	41,800
Totals	\$ 568,000	\$ 325,287	\$ 893,287

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 500,000 were issued in 1996 and mature annually on January 1, with a final maturity scheduled for the year 2036. Annual interest payments are due on December 31, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2012	9,500	18,540	28,040
2013	9,500	18,113	27,613
2014	10,000	17,685	27,685
2015	10,500	17,235	27,735
2016	11,000	16,763	27,763
2017	11,500	16,268	27,768
2018	12,000	15,750	27,750
2019	12,500	15,210	27,710
2020	13,000	14,648	27,648
2021	13,500	14,063	27,563
2022	14,500	13,455	27,955
2023	15,000	12,803	27,803
2024	15,500	12,128	27,628
2025	16,500	11,430	27,930
2026	17,000	10,688	27,688
2027	18,000	9,923	27,923
2028	18,500	9,113	27,613
2029	19,500	8,280	27,780
2030	20,500	7,403	27,903
2031	21,000	6,480	27,480
2032	23,000	5,535	28,535
2033	23,500	4,500	28,000
2034	24,500	3,443	27,943
2035	25,500	2,340	27,840
2036	26,500	1,193	27,693
Totals	<u>\$ 412,000</u>	<u>\$ 282,989</u>	<u>\$ 694,989</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 1,500,000 were issued in 2000 and mature annually on January 26, with a final maturity scheduled for the year 2040. Annual interest payments are due on December 31, with an interest rate of 5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

Fiscal Year	Annual Requirements of		Total Annual
	Principal	Interest	Requirements
2012	21,000	67,300	88,300
2013	23,000	66,250	89,250
2014	24,000	65,100	89,100
2015	25,000	63,900	88,900
2016	26,000	62,650	88,650
2017	28,000	61,350	89,350
2018	29,000	59,950	88,950
2019	30,000	58,500	88,500
2020	32,000	57,000	89,000
2021	33,000	55,400	88,400
2022	35,000	53,750	88,750
2023	37,000	52,000	89,000
2024	39,000	50,150	89,150
2025	41,000	48,200	89,200
2026	43,000	46,150	89,150
2027	45,000	44,000	89,000
2028	47,000	41,750	88,750
2029	50,000	39,400	89,400
2030	52,000	36,900	88,900
2031	55,000	34,300	89,300
2032	57,000	31,550	88,550
2033	60,000	28,700	88,700
2034	63,000	25,700	88,700
2035	66,000	22,550	88,550
2036	70,000	19,250	89,250
2037	73,000	15,750	88,750
2038	77,000	12,100	89,100
2039	81,000	8,250	89,250
2040	84,000	4,200	88,200
Totals	\$ 1,346,000	\$ 1,232,050	\$ 2,578,050

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 2,334,000 were issued in 2004 and mature annually on January 1, with a final maturity scheduled for the year 2029. Interest payments are due on January 1 and July 1, with an interest rate of 3.06 - 4.56%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	144,000	62,777	206,777
2013	148,000	57,824	205,824
2014	154,000	52,554	206,554
2015	160,000	46,302	206,302
2016	176,000	39,806	215,806
2017	60,000	32,661	92,661
2018	64,000	30,225	94,225
2019	64,000	27,626	91,626
2020	68,000	25,028	93,028
2021	70,000	22,267	92,267
2022	74,000	19,334	93,334
2023	60,000	16,234	76,234
2024	64,000	13,498	77,498
2025	66,000	10,579	76,579
2026	70,000	7,570	77,570
2027	30,000	4,378	34,378
2028	32,000	3,010	35,010
2029	34,000	1,550	35,550
Totals	<u>\$ 1,538,000</u>	<u>\$ 473,223</u>	<u>\$ 2,011,223</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 700,000 were issued in 2004 and mature annually on January 1, with a final maturity scheduled for the year 2044. Annual interest payments are due on December 31, and June 16, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2012	9,000	29,295	38,295
2013	9,500	28,868	38,368
2014	10,000	28,418	38,418
2015	10,500	27,945	38,445
2016	11,000	27,450	38,450
2017	11,500	26,933	38,433
2018	12,000	26,393	38,393
2019	12,500	25,830	38,330
2020	13,000	25,245	38,245
2021	13,500	24,638	38,138
2022	14,000	24,008	38,008
2023	15,000	23,333	38,333
2024	15,500	22,635	38,135
2025	16,000	21,915	37,915
2026	17,000	21,150	38,150
2027	17,500	20,363	37,863
2028	18,500	19,530	38,030
2029	19,500	18,653	38,153
2030	20,000	17,753	37,753
2031	21,000	16,808	37,808
2032	22,000	15,818	37,818
2033	23,000	14,783	37,783
2034	24,000	13,703	37,703
2035	25,000	12,578	37,578
2036	26,000	11,408	37,408
2037	27,500	10,170	37,670
2038	28,500	8,888	37,388
2039	30,000	7,538	37,538
2040	31,000	6,143	37,143
2041	32,500	4,680	37,180
2042	34,000	3,150	37,150
2043	35,500	1,553	37,053
2044	34,500	0	34,500
Totals	\$ 660,000	\$ 587,567	\$ 1,247,567

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 442,000 were issued in 2004 and mature annually on January 1, with a final maturity scheduled for the year 2044. Interest payments are due on December 31, and June 16, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

Fiscal Year	Annual Requirements of		Total Annual Requirements
	Principal	Interest	
2012	5,500	18,495	23,995
2013	6,000	18,225	24,225
2014	6,500	17,933	24,433
2015	6,500	17,640	24,140
2016	7,000	17,325	24,325
2017	7,000	17,010	24,010
2018	7,500	16,673	24,173
2019	8,000	16,313	24,313
2020	8,000	15,953	23,953
2021	8,500	15,570	24,070
2022	9,000	15,165	24,165
2023	9,500	14,738	24,238
2024	10,000	14,288	24,288
2025	10,000	13,838	23,838
2026	10,500	13,365	23,865
2027	11,000	12,870	23,870
2028	11,500	12,353	23,853
2029	12,000	11,813	23,813
2030	12,500	11,250	23,750
2031	13,000	10,665	23,665
2032	14,000	10,035	24,035
2033	14,500	9,383	23,883
2034	15,000	8,708	23,708
2035	16,000	7,988	23,988
2035	16,500	7,245	23,745
2037	17,000	6,480	23,480
2038	18,000	5,670	23,670
2039	19,000	4,815	23,815
2040	19,500	3,938	23,438
2041	20,500	3,015	23,515
2042	21,500	2,048	23,548
2043	22,500	1,035	23,535
2044	23,000	0	23,000
Totals	\$ 416,500	\$ 371,836	\$ 788,336

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 76,000 were issued in 2005 and mature annually on January 1, with a final maturity scheduled for the year 2044. Interest payments are due December 31, and June 16, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	1,000	3,182	4,182
2013	1,000	3,137	4,137
2014	1,100	3,087	4,187
2015	1,100	3,038	4,138
2016	1,200	2,984	4,184
2017	1,200	2,930	4,130
2018	1,300	2,871	4,171
2019	1,300	2,813	4,113
2020	1,400	2,750	4,150
2021	1,500	2,682	4,182
2022	1,500	2,615	4,115
2023	1,600	2,543	4,143
2024	1,700	2,466	4,166
2025	1,700	2,390	4,090
2026	1,800	2,309	4,109
2027	1,900	2,223	4,123
2028	2,000	2,133	4,133
2029	2,100	2,039	4,139
2030	2,200	1,940	4,140
2031	2,300	1,836	4,136
2032	2,400	1,728	4,128
2033	2,500	1,616	4,116
2034	2,600	1,499	4,099
2035	2,700	1,377	4,077
2035	2,800	1,251	4,051
2037	3,000	1,116	4,116
2038	3,100	977	4,077
2039	3,200	833	4,033
2040	3,400	680	4,080
2041	3,500	522	4,022
2042	3,700	356	4,056
2043	3,900	180	4,080
2044	4,000	0	4,000
Totals	<u>\$ 71,700</u>	<u>\$ 64,103</u>	<u>\$ 135,803</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Water and Sewer Revenue Bonds with par value of 338,000 were issued in 2007 and mature annually on January 1, with a final maturity scheduled for the year 2046. Interest payments are due on December 31 and June 16, with an interest rate of 4.5%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2011 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	4,000	14,715	18,715
2013	4,200	14,535	18,735
2014	4,400	14,346	18,746
2015	4,600	14,148	18,748
2016	4,800	13,941	18,741
2017	5,000	13,725	18,725
2018	5,200	13,500	18,700
2019	5,500	13,266	18,766
2020	5,700	13,019	18,719
2021	6,000	12,762	18,762
2022	6,200	12,492	18,692
2023	6,500	12,213	18,713
2024	6,800	11,921	18,721
2025	7,100	11,615	18,715
2026	7,400	11,295	18,695
2027	7,800	10,962	18,762
2028	8,100	10,611	18,711
2029	8,500	10,247	18,747
2030	8,900	9,864	18,764
2031	9,300	9,464	18,764
2032	9,700	9,045	18,745
2033	10,100	8,609	18,709
2034	10,600	8,154	18,754
2035	11,100	7,677	18,777
2035	11,600	7,178	18,778
2037	12,100	6,656	18,756
2038	12,600	6,111	18,711
2039	13,200	5,544	18,744
2040	13,800	4,950	18,750
2041	14,400	4,329	18,729
2042	15,000	3,681	18,681
2043	15,700	3,006	18,706
2044	16,400	2,300	18,700
2045	17,200	1,562	18,762
2046	17,500	788	18,288
Totals	<u>\$ 327,000</u>	<u>\$ 328,231</u>	<u>\$ 655,231</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 4. BONDED DEBT - CONTINUED

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years for the items listed below was \$7,811,874. During the year there were no new bond issues. Revenue bonds retired during the year totaled \$203,200.

Revenue bonds are pledged by revenues and by the faith full faith and credit of the government. These bonds are issued as 10 to 40 year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Annual debt service requirements to maturity for Revenue bonds are as follows:

Year Ending June 30,	Business - Type Activities		
	Principal	Interest	Total
2012	210,000	239,864	449,864
2013	217,700	231,792	449,492
2014	227,500	223,221	450,721
2015	236,700	213,518	450,218
2016	256,500	203,397	459,897
Thereafter	4,190,800	2,553,494	6,744,294
Totals	<u>\$ 5,339,200</u>	<u>\$ 3,665,286</u>	<u>\$ 9,004,486</u>

The following is a summary of debt transactions of the City for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Revenue Bonds	\$ 5,542,400	\$ 0	\$ 203,200	\$ 5,339,200	\$ 210,000
Notes Payable	147,900	71,880	0	219,780	0
	<u>\$ 5,690,300</u>	<u>\$ 71,880</u>	<u>\$ 203,200</u>	<u>\$ 5,558,980</u>	<u>\$ 210,000</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 5. ALLOWANCE FOR DOUBTFUL AMOUNTS

At the year end, the City analyzes the balance in billed receivables and utilizes prior history in determining the adequacy of the allowance for potential losses. At June 30, 2011 and 2010, the allowance account was 35% and 28% of the past due amounts respectively.

	<u>Total Billings</u>	<u>Bad Debts</u>	<u>Percentage of Bad Debts to Billings</u>
June 30, 2011	\$ 2,270,735	\$ 23,905	\$ 1.05%
June 30, 2010	\$ 2,308,953	\$ 17,318	\$ 0.75%

Based on the consistency of the amounts with prior years and no significant change in the customer base or local economic conditions, in my opinion, the allowance at year-end appears adequate for any potential losses.

NOTE 6. SUMMARY OF CHANGES IN CAPITAL ASSETS

Governmental activities:	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Assets				
Land	\$ 83,086	\$ -	\$ -	\$ 83,086
Buildings	262,003	12,264	-	274,267
Trucks & Equipment	1,017,491	8,164	-	1,025,655
Furniture & Fixtures	51,219	2,498	-	53,717
Street Repair	458,082	-	-	458,082
Landscaping	12,643	-	-	12,643
Total	\$ 1,884,524	\$ 22,926	\$ -	\$ 1,907,450
Accumulated Depreciation	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Buildings	\$ 169,562	\$ 9,140	\$ -	\$ 178,702
Trucks & Equipment	667,903	76,801	-	744,704
Furniture & Fixtures	48,594	1,790	-	50,384
Street Repair	99,372	30,539	-	129,911
Landscaping	12,643	-	-	12,643
Total	\$ 998,074	\$ 118,270	\$ -	\$ 1,116,344
Net Capital Assets, Governmental Activities				\$ 791,106

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 6. SUMMARY OF CHANGES IN CAPITAL ASSETS

Business-Type Activities:	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Assets				
Land	\$ 340,661	\$ -	\$ -	\$ 340,661
Buildings	106,670	-	-	106,670
Office Equipment	30,742	4,700	-	35,442
Sewer Trucks and Equipment	78,347	-	-	78,347
Sewer Utility Plant	2,432,733	2,949,239	-	5,381,972
Water House and Building	87,907	-	-	87,907
Water Trucks	391,570	9,500	-	401,070
Water Utility Plant	22,269,390	1,101,651	-	23,371,041
Contruction in Progress	13,940,443	1,281,352	4,050,890	11,170,905
Total	\$ 39,678,463	\$ 5,346,442	\$ 4,050,890	\$ 40,974,015

Accumulated Depreciation	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Land	\$ -	\$ -	\$ -	\$ -
Buildings	17,332	2,666	-	19,998
Office Equipment	28,144	1,912	-	30,056
Sewer Trucks and Equipment	69,210	3,461	-	72,671
Sewer Utility Plant	1,052,827	134,241	-	1,187,068
Water House and Building	42,365	2,811	-	45,176
Water Trucks	369,844	10,367	-	380,211
Water Utility Plant	7,324,614	574,566	-	7,899,180
Contruction in Progress	-	-	-	-
Total	\$ 8,904,336	\$ 730,024	\$ -	\$ 9,634,360

NOTE 7. RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications have been made to the June 30, 2010 information to make them comparable to June 30, 2011.

NOTE 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The City has a number of financial instruments, none of which are held for trading purposes. The City estimates that the fair value of all financial instruments at June 30, 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the City using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the City could realized in a current market exchange.

NOTE 9. ECONOMIC DEPENDENCY / CREDIT RISK

Approximately 34% of the City's water revenues are received from Cagles Keystone, LLC. The unlikely event of loss of future revenues from Cagles Keystone, LLC could potentially result in a substantial reduction to the City's water revenues and could negatively impact the City's ability to achieve forecasted revenues and profit performance levels.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 10. RESTRICTED ASSETS

Certain proprietary fund and similar component units assets are restricted for debt services and consist of cash and cash equivalents. This includes Municipal Road Aid Fund, LGEA Fund, and Police Cash Account.

NOTE 11. INTERGOVERNMENTAL REVENUES AND RECEIVABLES

Analysis of intergovernmental revenues and collectibles is as follows:

	<u>Receivables</u>	<u>Revenues</u>
General Fund		
Police Training Incentives (KLEFPF)	\$ 2,115	\$ 28,696
Base Court Revenues	0	9,613
Other - Grants	0	15,940
Total	<u>\$ 2,115</u>	<u>\$ 54,249</u>
Special Revenue Fund		
LGEA	\$ 0	\$ 13,373
Municipal Road Aid	0	48,003
	<u>\$ 0</u>	<u>\$ 61,376</u>

Based on the consistency of the amounts with prior years and no significant change in the customer base.

NOTE 12. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (non-current portion) are reported as advances from and to other funds".

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 486,249	\$ 0
Municipal Road Aid	0	0
Proprietary	0	486,249
Total	<u>\$ 486,249</u>	<u>486,249</u>

NOTE 13. RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2011, the City was sufficiently insured.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
JUNE 30, 2011

NOTE 14. RESERVATION OF FUND BALANCE

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation of legally restricted for specified purposes. The General Fund reserve for restricted purposes includes net assets resulting from state aid exclusively restricted for the police and street funds.

NOTE 15. CONTINGENCIES

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

NOTE 16. SUBSEQUENT EVENTS

The City is continuing to upgrade all water lines and transmission systems.

NOTE 17. DEPRECIATION FUND - PROPRIETARY FUNDS

The bond ordinances state that the Enterprise Fund is to create a special fund designated as the "Depreciation Fund". All hookup fees, proceeds from property damage insurance, sale of surplus or worn - out equipment and a sum equal to not less than one twelfth (1/12) of five percent (5%) of the annual gross income and revenue of the public water and sewer project of the previous fiscal year, should be deposited into the Depreciation Fund. The Water Company transferred its required amounts into all Depreciation Funds.

CITY OF ALBANY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2011

The audit report for the year ended June 30, 2010, contained no audit findings

SAMMY K. LEE, P.S.C.
Certified Public Accountant

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**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 Honorable Mayor and Members of the City Council
City of Albany, Kentucky
Albany, Kentucky 42602

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund of the City of Albany, Kentucky as of and for the year then ended June 30, 2011, which collectively comprise the City of Albany, Kentucky's basic financial statements and have issued my report thereon dated November 8, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Albany, Kentucky's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit City of Albany, Kentucky's response and, accordingly, I express no opinion on it.

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

Sammy K. Lee, P.S.C.

Lexington, Kentucky
November 8, 2011

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011**

Section I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Albany.
2. The results of my audit procedures disclosed one significant deficiency in internal control over financial reporting for the fiscal year ended June 30, 2011. The significant deficiencies identified are not deemed to be material weaknesses.
3. The results of my audit procedures disclosed no instances of noncompliance.

Section II - Financial Statement Findings

Finding 2011-01 Internal Control Over Financial Reporting

Criteria:

A key component of internal control is to ensure the responsibility of management to establish and maintain internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted the absence of internal control in the following areas:

- The City's internal control system lacks certain controls with respect to segregation of duties with cash collections.
- The City's internal control system does not reliably and consistently produce adjustments to bring the accounting records into alignment with generally accepted accounting principles in the United States of America.
- The City does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles in the United States of America. As such, management requested us to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in companies of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

Cause:

Due to the small number of administrative and clerical employees at the City, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties and its ability to prepare financial statements in accordance with Generally Accepted Accounting Principles of the United States.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
For the Year Ended June 30, 2011

Recommendation:

Specific recommendations are:

1. If possible office employees should be rotated daily from the cash collections process to the posting of receipts in the billing system process, to segregate duties as much as possible.
2. Management should review the adequacy of the financial statement disclosures by reviewing and approving a disclosure checklist I provide to you.
3. Management should review all supporting documentation and explanations for journal entries I propose and approve the entries.
4. Management should reconcile general ledger amounts to draft financial statements by maintaining worksheets to support balance sheets amounts.

Views of Responsible Officials:

Management concurs with recommendations. However, the limited number of employees within our administration office prevents us from fully segregating our custodial duties from recordkeeping duties. Also, we will start to review disclosure checklists for pertinent note disclosures and journal entries, and maintain worksheets to support balance sheet accounts applicable to the City for the year ending June 30, 2011. The City will strive to implement compensating controls and procedures to correct the deficiency as noted in the finding. We understand these limitations, and are responsible for any outcomes.

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CERTIFICATION OF LOCAL GOVERNMENT ECONOMIC ASSISTANCE

The Honorable Mayor and Members of the City Council
City of Albany, Kentucky
Albany, Kentucky 42602

In accordance with KRS 42.450 – 42.495, I have examined all LGEA disbursements of the City of Albany, Kentucky for compliance with the Department of Local Government laws and regulations. Based upon the results of my audit, I certify that the City is in compliance with KRS 42.450 – 42.495.

Sammy K. Lee, P.S.C.

Lexington, Kentucky
November 8, 2011