

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

**CITY OF ALBANY, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2013**

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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

Leland Hicks

Tonya Thrasher

James Smith

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, 2013**

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, 2013. 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 \$27,467,076.
The City's total net assets decreased by \$136,892 during the year.
The City's total long-term debt increased by \$361,585 during the fiscal year.
The City's cash increased by \$488,779 during the year.

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 is 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.

The statement of activities presents information showing how the City'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).

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013

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 and sewage 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.

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.

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013**

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 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, 2013**

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 \$27,467,076 at the end of 2013, compared to \$27,603,968 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			
	2013	2012	Change	% Change
Current Assets	\$ 973,363	\$ 691,767	\$ 281,596	40.71%
Non-Current Assets	733,541	807,173	(73,632)	-9.12%
Total Assets	1,706,904	1,498,940	207,964	13.87%
Current Liabilities	45,032	113,420	(68,388)	-60.30%
Non-Current Liabilities	-	-	-	0.00%
Total Liabilities	45,032	113,420	(68,388)	-60.30%
Invested in Capital				
Assets, Net	650,572	711,229	(60,657)	-8.53%
Restricted	82,969	95,944	(12,975)	-13.52%
Unrestricted	928,331	578,347	349,984	60.51%
Total Net Assets	\$ 1,661,872	\$ 1,385,520	\$ 276,352	19.95%

	Business-Type Activities			
	2013	2012	Change	% Change
Current Assets	\$ 821,673	\$ 862,672	\$ (40,999)	-4.75%
Non-Current Assets	31,601,086	31,667,442	(66,356)	-0.21%
Total Assets	32,422,759	32,530,114	(107,355)	-0.33%
Current Liabilities	1,150,906	1,147,219	3,687	0.32%
Non-Current Liabilities	5,466,649	5,164,447	302,202	0.00%
Total Liabilities	6,617,555	6,311,666	305,889	4.85%
Invested in Capital				
Assets, Net	25,149,665	26,082,226	(932,561)	-3.58%
Restricted	497,028	203,069	293,959	144.76%
Unrestricted	158,511	(66,847)	225,358	-337.13%
Total Net Assets	\$ 25,805,204	\$ 26,218,448	\$ (413,244)	-1.58%

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013**

Financial Overview - Statement of Activities

Approximately 56 percent of the City's total revenue resulted from charges for services, while 28 percent were from taxes and licenses. Charges for various sources, investment income and grant income provided 16 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 revenues exceeded expenses by \$276,352 mainly to an increase of insurance premiums. Business-type activity expenses exceeded revenues by \$413,244 due to depreciation.

	Governmental Activities	Business-Type Activities	Total	2012	Difference
Revenues					
Charges for Services	\$ 56,976	\$ 2,415,451	\$ 2,472,427	\$ 2,386,997	\$ 85,430
Taxes	151,832	-	151,832	154,964	(3,132)
Licenses	1,108,071	-	1,108,071	922,662	185,409
Intergovernmental Revenue	100,549	-	100,549	99,586	963
Grants	21,272	457,967	479,239	842,170	(362,931)
Other	28,705	103,945	132,650	174,639	(41,989)
Total Revenues	1,467,405	2,977,363	4,444,768	4,581,018	(136,250)
Expenses					
Administration	220,297	-	220,297	273,194	(52,897)
Police	523,175	-	523,175	489,585	33,590
Fire	143,085	-	143,085	157,891	(14,806)
Street	304,496	-	304,496	388,786	(84,290)
Water	-	2,857,255	2,857,255	2,522,170	335,085
Sewer	-	533,352	533,352	492,445	40,907
Total Expenses	1,191,053	3,390,607	4,581,660	4,324,071	257,589
Change in Net Assets	276,352	(413,244)	(136,892)	256,947	(393,839)
Net Assets, Beginning of Year	1,385,520	26,218,448	27,603,968	27,347,021	256,947
Net Assets, End of Year	\$ 1,661,872	\$ 25,805,204	\$ 27,467,076	\$ 27,603,968	\$ (136,892)

Governmental Activities and Business Type Activities

Governmental activities increased the City's net assets by \$276,352. This resulted from an increase in insurance premium revenues. Business-type activities decreased the City's net assets by \$413,244. This was mainly attributed to an increase in depreciation.

Financial Analysis of the City's Funds

The fund balance at year-end for the City's General Fund increased by \$349,089, primarily due to a increase in insurance premium taxes.

The fund balance at year-end for the Special Revenue Fund decreased by \$12,080, primarily due to an increase in street personnel cost.

General Fund Budgetary Highlights

The budget was amended in June 2013 to allow for additional expenses.

Budgeted revenues exceeded appropriations for the year causing the City to have excess funds.

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2013**

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$44,217,699, net of accumulated depreciation of \$12,673,730, leaving a net book value of \$31,543,969. 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 decrease in the City's investment in capital assets for the current fiscal year was about \$631,633. Actual expenditures to purchase or construct capital assets were \$479,342 for the year. Depreciation charges for the year totaled \$1,110,974. Additional information on the City's capital assets can be found in Note 6 of the Notes to the Financial Statements of this report.

Debt Administration

The City of Albany's total debt decreased by \$361,585 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 slowdown 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 cannot 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**

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

208 Pauline Drive, Suite D
P.O. Box 958
Berea, KY 40403
(859) 986-3756
FAX (859) 986-0103

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund of the City of Albany as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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 the aggregate remaining fund information of the City of Albany as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 7 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 my inquiries, the basic financial statements, and other knowledge I obtained during my 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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued our report dated December 2, 2013, on my consideration of the City's internal control over financial reporting and 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 compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting.

Sammy K. Lee, P.S.C.

December 2, 2013

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 446,462	\$ 236,693	\$ 683,155
Accounts receivables, net			
Customers	-	496,496	496,496
Other	9,888	2,873	12,761
Prepaid expenses	1,029	1,030	
Due from water	515,984	-	515,984
Inventory	-	84,581	84,581
Total Current Assets	973,363	821,673	1,792,977
Non-current Assets			
Restricted cash and cash equivalents	82,969	497,028	579,997
Capital assets, net of accumulated depreciation	650,572	30,893,397	31,543,969
Bond issue costs, net of accumulated amortization	-	210,661	210,661
Total Non-current Assets	733,541	31,601,086	32,334,627
Total Assets	\$ 1,706,904	\$ 32,422,759	\$ 34,127,604
Liabilities			
Current Liabilities			
Accounts payable	\$ 11,041	\$ 76,450	\$ 87,491
Accrued expenses	33,991	70,779	104,770
Revenue bonds payable, current	-	277,083	277,083
Due to general	-	515,984	515,984
Accrued interest	-	57,612	57,612
Customer deposits payable	-	152,998	152,998
Total Current Liabilities	45,032	1,150,906	1,195,938
Non-current Liabilities			
Notes payable	-	248,732	248,732
Revenue bonds payable, non-current	-	5,217,917	5,217,917
Total Non-current Liabilities	-	5,466,649	5,466,649
Total Liabilities	45,032	6,617,555	6,662,587
Net Assets			
Investment in capital assets, net of related debt	650,572	25,149,665	25,800,237
Restricted	82,969	497,028	579,997
Unrestricted	928,331	158,511	1,086,842
Total Net Assets	\$ 1,661,872	\$ 25,805,204	\$ 27,467,076

See accompanying notes to financial statements.

**CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
JUNE 30, 2013**

Program Revenues

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Government Activities					
General government	\$ 220,297	\$ -	\$ 21,272	\$ -	\$ (199,025)
Police	523,175	-	-	-	(523,175)
Fire	143,085	56,976	-	-	(86,109)
Street	304,496	-	-	-	(304,496)
Total	1,191,053	56,976	21,272	-	(1,112,805)
Business-Type Activities					
Water	2,857,255	2,176,223	-	389,272	(291,760)
Sewer	533,352	239,228	-	68,695	(225,429)
Total	3,390,607	2,415,451	-	457,967	(517,189)
Total Activities	\$ 4,581,660	\$ 2,472,427	\$ 21,272	\$ 457,967	\$ (1,629,994)

CITY OF ALBANY, KENTUCKY
 STATEMENT OF ACTIVITIES (CONTINUED)
 JUNE 30, 2013

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Changes in Net Assts			
Net (Expense) Revenue	\$ (1,112,805)	\$ (517,189)	\$ (1,629,994)
General Revenues			
Taxes	151,832	-	151,832
Licenses, permits, fees	1,108,071	-	1,108,071
Intergovernmental	100,549	-	100,549
Fines, arrest fees, and permits	3,404	-	3,404
Other	25,301	103,945	129,246
Total Revenues	1,389,157	103,945	1,493,102
Change in Net Assets	276,352	(413,244)	(136,892)
Net Assets, Beginning	1,385,520	26,218,448	27,603,968
Net Assets, Ending	\$ 1,661,872	\$ 25,805,204	\$ 27,467,076

CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 446,462	\$ -	\$ 446,462
Accounts receivable			
Customers	-	-	-
Other	9,888	-	9,888
Due from water	515,984	-	515,984
Cash and cash equivalents - restricted	10,046	72,923	82,969
Prepaid expenses	1,029	-	1,029
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 983,409</u>	<u>\$ 72,923</u>	<u>\$ 1,056,332</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 11,041	\$ -	\$ 11,041
Accrued expenses	33,991	-	33,991
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>45,032</u>	<u>-</u>	<u>45,032</u>
Fund Balance			
Reserved	10,046	72,923	82,969
Unreserved	928,331	-	928,331
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>938,377</u>	<u>72,923</u>	<u>1,011,300</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 983,409</u>	<u>\$ 72,923</u>	<u>\$ 1,056,332</u>

See accompanying notes to financial statements.

**CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2013**

Total Fund Balance - Total Governmental Funds **\$ 1,011,300**

Amounts reported for *government activities* in the Statement of Net Assets are different because:

Capital assets of \$1,955,471, net accumulated depreciation of \$1,304,899, are not financial resources and, therefore are not reported in the funds.

650,572

Net Assets of Governmental Activities

\$ 1,661,872

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 151,832	\$ -	\$ 151,832
Licenses, permits & fees	1,108,071	-	1,108,071
Intergovernmental	49,754	72,067	121,821
Service charges	56,976	-	56,976
Fines, arrest fees & permits	3,404	-	3,404
Other	25,301	-	25,301
Total Revenues	<u>1,395,338</u>	<u>72,067</u>	<u>1,467,405</u>
Expenditures			
General & administration department	209,538	-	209,538
Police department	483,859	-	483,859
Fire department	129,125	-	129,125
Street department	223,727	84,147	307,874
Total Expenditures	<u>1,046,249</u>	<u>84,147</u>	<u>1,130,396</u>
Net Change in Fund Balance	349,089	(12,080)	337,009
Fund Balance, Beginning of Year	<u>589,288</u>	<u>85,003</u>	<u>674,291</u>
Fund Balance, End of Year	<u>\$ 938,377</u>	<u>\$ 72,923</u>	<u>\$ 1,011,300</u>

See accompanying notes to financial statements.

**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, 2013**

Net Changes in Fund Balances - Total Governmental Funds **\$ 337,009**

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 \$41,800 was exceeded by depreciation of \$102,457 in the current period.

(60,657)

Change in Net Assets of Governmental Activities

\$ 276,352

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
JUNE 30, 2013

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
GOVERNMENTAL REVENUES					
Taxes	\$ 122,000	\$ -	\$ 122,000	\$ 151,832	\$ 29,832
Licenses, permits & fees	782,400	-	782,400	1,108,071	325,671
Intergovernmental	94,000	-	94,000	121,821	27,821
Fines, arrest fees & permits	8,000	-	8,000	56,976	48,976
Service charge	36,000	-	36,000	3,404	(32,596)
Other	26,402	-	26,402	25,301	(1,101)
Total Revenues	<u>1,068,802</u>	<u>-</u>	<u>1,068,802</u>	<u>1,467,405</u>	<u>398,603</u>
GOVERNMENTAL EXPENDITURES					
General & administrative	223,600	-	223,600	209,538	14,062
Police	507,900	-	507,900	483,859	24,041
Fire	105,120	-	105,120	129,125	(24,005)
Street	230,900	-	230,900	307,874	(76,974)
Total Expenses	<u>1,067,520</u>	<u>-</u>	<u>1,067,520</u>	<u>1,130,396</u>	<u>(62,876)</u>
Net Change in Fund Balance	1,282	-	1,282	337,009	335,727
Fund Balance, Beginning	<u>674,291</u>	<u>-</u>	<u>674,291</u>	<u>674,291</u>	<u>674,291</u>
Fund Balance, Ending	<u>\$ 675,573</u>	<u>\$ -</u>	<u>\$ 675,573</u>	<u>\$ 1,011,300</u>	<u>\$ 1,010,018</u>

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
JUNE 30, 2012

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
EXPENDITURES					
General & Administrative					
Salaries	\$ 112,000	\$ -	\$ 112,000	\$ 115,388	\$ (3,388)
Employee benefits	45,700	-	45,700	37,124	8,576
Professional services	12,000	-	12,000	11,455	545
Insurance	11,500	-	11,500	9,682	1,818
Office expense	3,000	-	3,000	10,549	(7,549)
Telephone & utilities	9,500	-	9,500	6,385	3,115
Travel & training	3,500	-	3,500	2,589	912
Repairs & maintenance	12,500	-	12,500	13,235	(735)
Miscellaneous	13,900	-	13,900	3,131	10,769
Capital outlay	-	-	-	-	-
Total General & Administration	<u>\$ 223,600</u>	<u>\$ -</u>	<u>\$ 223,600</u>	<u>\$ 209,538</u>	<u>\$ 14,062</u>
Police Department					
Salaries (including incentive pay)	267,000	-	267,000	285,660	(18,660)
Employee benefits	137,400	-	137,400	105,092	32,308
Vehicle expense	36,000	-	36,000	41,969	(5,969)
Insurance	29,000	-	29,000	12,174	16,826
Professional fees	2,500	-	2,500	785	1,715
Uniform, supplies & equipment	3,500	-	3,500	6,438	(2,938)
Dispatching	15,000	-	15,000	16,500	(1,500)
Telephone & utilities	7,500	-	7,500	9,726	(2,226)
Travel & training	4,500	-	4,500	842	3,658
Miscellaneous	2,000	-	2,000	4,674	(2,674)
Capital outlay	3,500	-	3,500	-	3,500
Total Police Department	<u>\$ 507,900</u>	<u>\$ -</u>	<u>\$ 507,900</u>	<u>\$ 483,859</u>	<u>\$ 24,041</u>

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
JUNE 30, 2012

	<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	\$ 18,391	\$ 9,929
Employee benefits	1,200	-	1,200	687	513
Fire personnel allowance	34,000	-	34,000	43,722	(9,722)
Vehicle expense	21,500	-	21,500	29,577	(8,077)
Insurance	3,100	-	3,100	11,866	(8,766)
Travel & training	3,000	-	3,000	4,549	(1,549)
Supplies & equipment	5,000	-	5,000	10,429	(5,429)
Telephone & utilities	6,000	-	6,000	7,592	(1,592)
Miscellaneous	3,000	-	3,000	2,313	687
Capital outlay	-	-	-	-	-
Total Fire Department	\$ 105,120	\$ -	\$ 105,120	\$ 129,125	\$ (24,005)
Street Department					
Salaries	\$ 94,000	\$ -	\$ 94,000	\$ 74,783	\$ 19,217
Employee benefits	51,900	-	51,900	41,196	10,704
Vehicle expense	7,500	-	7,500	8,060	(560)
Insurance	12,000	-	12,000	11,559	441
Uniforms & supplies	4,000	-	4,000	1,453	2,547
Street lighting	34,000	-	34,000	86,325	(52,325)
Repairs & maintenance	23,500	-	23,500	36,425	(12,925)
Miscellaneous	4,000	-	4,000	6,275	(2,275)
Capital outlay	-	-	-	41,800	(41,800)
Total Street Department	\$ 230,900	\$ -	\$ 230,900	\$ 307,874	\$ (76,974)

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Total Enterprise Funds</u>
Assets	
Current Assets	
Cash & cash equivalents	\$ 236,693
Accounts receivables, net	
Customers	496,496
Other receivable	2,873
Inventory	84,581
Prepaid insurance	1,030
Total Current Assets	<u>821,673</u>
Non-Current Assets	
Restricted cash & cash equivalents	497,028
Capital assets, net of accumulated depreciation	30,893,397
Bond issue costs, net of accumulated amortization	210,661
Total Non-Current Assets	<u>31,601,086</u>
Total Assets	<u><u>\$ 32,422,759</u></u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 76,450
Accrued expenses	70,779
Revenue bonds payable, current	277,083
Due to general	515,984
Accrued interest	57,612
Customer deposits payable	152,998
Total Current Liabilities	<u>1,150,906</u>
Non-Current Assets	
Notes payable	248,732
Revenue bonds payable, non-current	5,217,917
Total Non-Current Assets	<u>5,466,649</u>
Total Liabilities	<u>6,617,555</u>
Net Assets	
Investment in capital assets, net of related debt	25,149,665
Restricted	497,028
Unrestricted	158,511
Total Net Assets	<u><u>\$ 25,805,204</u></u>

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Water Utilities</u>	<u>Sewer Utilities</u>	<u>Total Enterprise Fund</u>
Operating Revenues			
Charges for services	\$ 2,176,223	\$ 239,228	\$ 2,415,451
Miscellaneous	85,266	15,047	100,313
Total Operating Revenues	<u>2,261,489</u>	<u>254,275</u>	<u>2,515,764</u>
Operating Expenses			
Salaries	550,868	98,705	649,573
Employee benefits	311,978	69,039	381,017
Professional services	3,043	2,836	5,879
Repairs, parts & supplies	140,349	5,421	145,770
Utilities & telephone	518,608	58,134	576,742
Lab & chemicals	177,356	17,557	194,913
Office expense	10,773	-	10,773
Vehicle expense	78,984	5,189	84,173
Insurance	21,587	22,692	44,279
Depreciation	806,814	201,703	1,008,517
Bad debt provision	21,762	2,392	24,154
Travel & training	1,360	3,160	4,520
Miscellaneous	47,253	4,895	52,148
Total Operating Expenses	<u>2,690,735</u>	<u>491,723</u>	<u>3,182,458</u>
Operating Income (Loss)	<u>(429,246)</u>	<u>(237,448)</u>	<u>(666,694)</u>
Non-Operating Revenues (Expenses)			
Interest income	3,087	545	3,632
Interest expense	(166,519)	(41,630)	(208,149)
Capital grants & contributions	389,272	68,695	457,967
Total Non-Operating Revenues (Expenses)	<u>225,840</u>	<u>27,610</u>	<u>253,450</u>
Change in Net Assets	<u>\$ (203,406)</u>	<u>\$ (209,838)</u>	<u>(413,244)</u>
Net Assets, Beginning of Year			<u>26,218,448</u>
Net Assets, End of Year			<u>\$ 25,805,204</u>

**CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities	
Cash received from customers	\$ 2,425,656
Cash received from other sources	100,313
Cash payments to suppliers and vendors	(1,158,706)
Cash payments to employees	(1,055,066)
Net cash provided by operating activities	<u>312,197</u>
Cash flows from capital and related financing activities	
Cash received from bond issue	5,595,000
Cash received from interfund loans	13,422
Cash received from grants	457,967
Principal and interest paid on revenue bonds and note	(5,490,610)
Bond issuance costs	(214,960)
Acquisition and construction of capital assets	(437,542)
Net cash used by capital and related financing activities	<u>(76,723)</u>
Cash flows from investing activities	
Cash received from interest income	4,042
Net cash provided by investing activities	<u>4,042</u>
Net increase in cash and cash equivalents	239,516
Cash and cash equivalents at June 30, 2012	<u>494,205</u>
Cash and cash equivalents at June 30, 2013	<u>\$ 733,721</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (666,694)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation, bond amortization, and bad debt provision	1,036,970
Changes in assets and liabilities	
(Increase) decrease in customer accounts receivable	(4,674)
(Increase) decrease in prepaid expenses	(1,030)
(Increase) decrease in inventory	(32,306)
Increase (decrease) in accounts payable	(10,472)
Increase (decrease) in accrued expenses	(24,476)
Increase (decrease) in customer deposits	14,879
Total Adjustments	<u>978,891</u>
Net cash provided by operating activities	<u>\$ 312,197</u>

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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's 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, 2013

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, 2013

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, 2013 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 2013, the original budget was approved June 2012. 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, 2013**

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, 2013, the liability for accrued vacation leave was approximately \$40,663. 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, 2013, the City had no funds with a deficit fund balance. However, the following funds had an excess of expenditures over budgeted amounts:

Fire	\$ 24,005
Street	<u>76,974</u>
Total	<u>\$ 100,979</u>

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.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

At June 30, 2013, the carrying amounts of the City's cash deposit and investment accounts (including certificates of deposits), both restricted and unrestricted were \$1,263,152. The bank balances at June 30, 2013, was \$1,295,081 which was 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, 2013 consisted of the following:

Account	Interest Bearing	General	Water and Sewer	Total
Operating	√	\$ 54,413	\$ 2,048	\$ 56,461
LGEAF	√	17,544	-	17,544
Municipal Road Aid	√	55,379	-	55,379
Dare Program	√	121	-	121
Drug Ratification	√	9,925	-	9,925
Depreciation Fund	√	-	19,941	19,941
Improvement and Refunding	√	-	39,473	39,473
Sinking Fund 2	√	-	-	-
Raw Water Intake KIA-HB	√	-	-	-
Raw Water Intake Exec Order	√	-	176	176
Regions Sinking Fund	√	-	-	-
US Highway 127 Highway Relocation	√	-	25,910	25,910
Sinking Fund - KY Bond Corporation	√	-	178,107	178,107
DSRF - KY Bond Corporation	√	-	231,372	231,372
Certificates of Deposit	√	40,819	236,693	277,512
Certificates of Deposit	√	101,126	-	101,126
Certificates of Deposit	√	100,000	-	100,000
Certificates of Deposit	√	50,028	-	50,028
Certificates of Deposit	√	100,076	-	100,076
Total		<u>\$ 529,431</u>	<u>\$ 733,721</u>	<u>\$ 1,263,152</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 City's deposits may not be returned in the event of bank failure. The City maintains its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC). As of June 30, 2013, the City's bank accounts in the amount of \$1,295,081 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, 2013**

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, 2013 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

<u>Issue</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Retired in 2013</u>	<u>Outstanding 6/30/2013</u>
91-10	4.5%	06/02/92	01/02/32	\$ 748,000	\$ 552,000	\$ -
91-11	4.5%	12/05/96	01/02/36	500,000	402,500	-
91-15	5.0%	01/26/00	01/02/40	1,500,000	1,325,000	-
2004 D	3.06-4.56%	10/19/04	11/01/29	2,334,000	1,394,000	-
2004 A	4.5%	07/01/04	01/01/44	700,000	651,000	-
2004 B	4.5%	07/01/04	01/01/44	442,000	411,000	-
2005 B	4.5%	06/01/05	01/01/44	76,000	70,700	-
2005 A	4.5%	12/07/07	01/01/46	338,000	323,000	-
2012E	2-3.25%	11/28/12	02/01/38	5,595,000	100,000	5,495,000
			Totals	\$ 12,233,000	\$ 5,229,200	\$ 5,495,000

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 4 – BONDED DEBT (CONTINUED)

Water and Sewer Revenue Bonds with par value of \$5,595,000 were issued in 2012 and mature annually on February 1, with a final maturity scheduled for the year 2038. Annual Interest payments are due on February 1 and August 1, with an interest rate of 2-3.25%.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2013 for the payment of bond principal and interest are as follows:

Fiscal Year	Principal	Interest	Total Annual Requirements
2014	275,000	138,268	413,268
2015	280,000	132,768	412,768
2016	285,000	127,168	412,168
2017	210,000	121,468	331,468
2018	220,000	117,268	337,268
2019-2023	1,135,000	519,340	1,654,340
2024-2028	1,145,000	390,504	1,535,504
2029-2033	1,005,000	239,160	1,244,160
2034-2038	940,000	93,419	1,033,419
Totals	<u>\$ 5,495,000</u>	<u>\$ 1,879,363</u>	<u>\$ 7,374,363</u>

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 \$12,233,000. During the year there were new bond issues in the amount of \$5,595,000. Revenue bonds retired during the year totaled \$5,229,200.

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.

The following is a summary of debt transactions of the City for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Revenue Bonds	\$ 5,129,200	\$ 5,595,000	\$ 5,229,200	\$ 5,495,000	\$ 277,083
Notes Payable	252,947	-	4,216	248,731	-
	<u>\$ 5,382,147</u>	<u>\$ 5,595,000</u>	<u>\$ 5,233,416</u>	<u>\$ 5,743,731</u>	<u>\$ 277,083</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, 2013 and 2012, the allowance account was 39% and 37% of the past due amounts, respectively.

	Total Billings	Bad Debts	Percentage of Bad Debts to Billings
June 30, 2013	\$2,415,452	\$24,155	1.00%
June 30, 2012	\$2,343,321	\$23,433	1.00%

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

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Governmental Activities				
Assets				
Land	\$ 83,086	\$ -	\$ -	\$ 83,086
Buildings	274,267	-	-	274,267
Trucks & Equipment	1,031,277	15,600	-	1,046,877
Furniture & Fixtures	54,315	-	-	54,315
Street Repair	458,082	26,200	-	484,282
Landscaping	12,643	-	-	12,643
Total	\$ 1,913,670	\$ 41,800	\$ -	\$ 1,955,470

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Accumulated Depreciation				
Land	\$ -	\$ -	\$ -	\$ -
Buildings	187,887	9,260	-	197,147
Trucks & Equipment	789,898	60,498	-	850,396
Furniture & Fixtures	51,563	925	-	52,488
Street Repair	160,450	31,774	-	192,224
Landscaping	12,643	-	-	12,643
Total	\$ 1,202,441	\$ 102,457	\$ -	\$ 1,304,898

Net Capital Assets, Governmental Activities	\$ 650,572
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**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 6 – SUMMARY OF CHANGES IN CAPITAL ASSETS (CONTINUED)

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Business-Type Activities				
Assets				
Land	\$ 340,661	\$ -	\$ -	\$ 340,661
Buildings	106,670	-	-	106,670
Office Equipment	35,442	-	-	35,442
Sewer Trucks & Equipment	78,347	5,244	-	83,591
Sewer Utility Plant	5,381,972	8,701,667	-	14,083,639
Water House & Building	87,907	-	-	87,907
Water Trucks	398,721	19,314	-	418,035
Water Utility Plant	23,970,278	3,136,005	-	27,106,283
Construction in Progress	11,424,689	-	11,424,689	-
Total	<u>\$ 41,824,687</u>	<u>\$ 11,862,231</u>	<u>\$ 11,424,689</u>	<u>\$ 42,262,229</u>
	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Accumulated Depreciation				
Land	\$ -	\$ -	\$ -	\$ -
Buildings	22,665	2,667	-	25,332
Office Equipment	32,081	1,878	-	33,959
Sewer Trucks & Equipment	74,097	1,402	-	75,499
Sewer Utility Plant	1,321,309	326,783	-	1,648,092
Water House & Building	47,961	2,784	-	50,745
Water Trucks	373,182	7,906	-	381,088
Water Utility Plant	8,489,019	665,098	-	9,154,117
Construction in Progress	-	-	-	-
Total	<u>\$ 10,360,314</u>	<u>\$ 1,008,517</u>	<u>\$ -</u>	<u>\$ 11,368,831</u>
Net Capital Assets, Business-Type Activities				<u><u>\$ 30,893,397</u></u>

NOTE 7 – RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications have been made to the June 30, 2012 information to make them comparable to June 30, 2013.

NOTE 8 – ECONOMIC DEPENDENCY/CREDIT RISK

Approximately 30% 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.

NOTE 9 – RESTRICTED ASSETS

Certain proprietary fund and similar component unit 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.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 10 – 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)	\$ 2,421	\$ 28,482
Base Court Revenues	2,763	11,334
Other - Grants	-	21,272
Total	<u><u>\$ 5,184</u></u>	<u><u>\$ 61,088</u></u>
 Special Revenue Fund		
LGEA	\$ -	\$ 16,414
Municipal Road Aid	-	55,653
Total	<u><u>\$ -</u></u>	<u><u>\$ 72,067</u></u>

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

NOTE 11 – 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 inter-fund loans are reported as "inter-fund receivables and payables". Long-term inter-fund loans (non-current portion) are reported as advances from and to other funds".

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$ 515,984	\$ -
Municipal Road Aid	-	-
Proprietary	-	515,984
Total	<u><u>\$ 515,984</u></u>	<u><u>\$ 515,984</u></u>

NOTE 12 – 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, 2013, the City was sufficiently insured.

NOTE 13 – 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.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 14 – 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 15 - SUBSEQUENT EVENTS

Subsequent events were evaluated through December 2, 2013, which is the date the financial statements were available to be issued.

NOTE 16 – DEBT SERVICE FUND- PROPRIETARY FUNDS

The bond ordinances state that the Enterprise Fund is to create a special fund designated as the "debt service reserve fund". Monthly principal, interest and fees, should be deposited into the sinking fund account. The Water Company transferred its required amounts into all debt service funds.

NOTE 17 – RETIREMENT PLANS

All of the City's full-time employees participate in the County Employees Retirement System (CERS). The CERS is a multiple employer cost sharing, defined benefit pension plan, which covers substantially all full-time employees of each county, school board, and any additional eligible local agencies electing to participate in the plan. The plan provides retirement, disability, and death benefits. Funding for the plan is provided through non-hazardous payroll withholdings of 5.00% and the City's contribution of 19.55% of the employee's total compensation subject to contribution.

Covered employees are required to contribute 5.00% of their compensation to the CERS. The City contributes an amount equal to 19.55% of non-hazardous compensation for the year ended June 30, 2013. Total contributions made during the fiscal year were as follows:

	June 30, 2013	June 30, 2012
City's total payroll per financial statements	\$ 1,127,295	\$ 1,130,349
Payroll for employees covered under CERS	\$ 1,031,134	\$ 1,033,678
CERS Contributions:		
Employees	\$ 51,557	\$ 51,684
Employer	\$ 201,587	\$ 195,985

Vesting in a retirement benefit begins immediately upon entry into the system. CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, and then 6% through June 30, 1986, and then 4% thereafter.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 17 – RETIREMENT PLANS (CONTINUED)

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Financial statements for CERS are present as standalone financial statements. A complete copy of the annual report may be obtained by writing or calling:

**Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564 - 4646**

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

208 Pauline Drive, Suite D
P.O. Box 958
Berea, KY 40403
(859) 986-3756
FAX (859) 986-0103

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

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

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

I have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albany, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Albany's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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 a 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. *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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be a significant deficiency as item 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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, we do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompany Schedule of Findings and Responses as item 2013-02.

Response to Findings

The City of Albany's response to the findings identified in my audit as described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sammy K. Lee, P.S.C.

Berea, Kentucky
December 2, 2013

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013. The significant deficiency identified is not deemed to be material weaknesses.
3. The results of my audit procedures disclosed an instance of noncompliance.

Section II - Financial Statement Findings

Finding 2013-01 Internal Control over Financial Reporting

Criteria:

A key component of internal control is to ensure the responsibility of those charged with governance 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 within the Water and Sewer department.
- 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 U.S. Generally Accepted Accounting Principles in the United States of America. As such, management requested us 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 collection and 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, 2013**

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. The City should continue to rely on the auditors to prepare their financial statements.

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. The City, will also continue to rely on the fee accountant and auditors to prepare the financial statements and the accompanying note disclosures. 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.

Finding 2013-02

Criteria:

KRS 65.140 requires all vendor payments be paid within 30 days of receipt of the invoice.

Condition:

While conducting my audit procedures, I noted the City did not remit payments due to vendors in a timely fashion.

Cause:

The City did not follow guidelines and remit payments in a timely manner.

Effect:

The City incurred fines and interest for non-payment and late payments.

Recommendation:

The City should follow KRS 65.140.

Views of Responsible Officials:

City agrees with recommendations.

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

208 Pauline Drive, Suite D
P.O. Box 958
Berea, KY 40403
(859) 986-3756
FAX (859) 986-0103

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

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.

Berea, Kentucky
December 2, 2013