

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

**CITY OF ALBANY, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2012**

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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, 2012**

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, 2012. 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 \$27,603,968.

The City's total net assets increased by \$256,947 during the year.

The City's total long-term debt decreased by \$210,000 during the fiscal year.

The City's cash increased by \$77,025 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 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
JUNE 30, 2012**

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 reconciliations 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
JUNE 30, 2012**

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
JUNE 30, 2012**

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 \$27,603,968 at the end of 2012, compared to \$27,347,020 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			
	2012	2011	Change	Change
Current Assets	\$ 691,767	\$ 564,328	\$ 127,439	22.58%
Noncurrent Assets	807,173	913,870	(106,697)	-11.68%
Total Assets	1,498,940	1,478,198	20,742	1.40%
Current Liabilities	113,420	76,842	36,578	47.60%
Noncurrent Liabilities	-	-	-	0.00%
Total Liabilities	113,420	76,842	36,578	47.60%
Invested in Capital				
Assets, Net	711,229	791,106	(79,877)	-10.10%
Restricted	95,944	122,764	(26,820)	-21.85%
Unrestricted	578,347	487,486	90,861	18.64%
Total Net Assets	\$ 1,385,520	\$ 1,401,356	\$ (15,836)	-1.13%

	Business-Type Activities			
	2012	2011	Change	Change
Current Assets	\$ 862,672	\$ 823,130	\$ 39,542	4.80%
Noncurrent Assets	31,667,442	31,583,361	84,081	100.00%
Total Assets	32,530,114	32,406,491	123,623	0.38%
Current Liabilities	1,147,219	1,111,847	35,372	3.18%
Noncurrent Liabilities	5,164,447	5,348,980	(184,533)	100.00%
Total Liabilities	6,311,666	6,460,827	(149,161)	-2.31%
Invested in Capital				
Assets, Net	26,082,226	25,780,674	301,552	1.17%
Restricted	203,069	243,707	(40,638)	-16.67%
Unrestricted	(66,847)	(78,717)	11,870	-15.08%
Total Net Assets	\$ 26,218,448	\$ 25,945,664	\$ 272,784	1.05%

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Financial Overview - Statement of Activities

Approximately 52 percent of the City's total revenue resulted from charges for services, while 23 percent were from taxes. Charges for various sources, investment income and grant income provided 25 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 \$15,836 mainly to a decrease of insurance premiums. Business-type activity revenues exceeded expenses by \$272,783 due to the receipt of additional grant revenues.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>2011</u>	<u>Difference</u>
Revenues:					
Charges for Services	\$ 43,676	\$ 2,343,321	\$ 2,386,997	\$ 2,313,766	\$ 73,231
Taxes	154,964	-	154,964	146,545	8,419
Licenses	922,662	-	922,662	732,960	189,702
Intergovernmental Revenue	99,586	-	99,586	90,073	9,513
Grants	37,377	804,793	842,170	1,085,670	(243,500)
Other	35,355	139,284	174,639	154,935	19,704
Total Revenues	<u>1,293,620</u>	<u>3,287,398</u>	<u>4,581,018</u>	<u>4,523,949</u>	<u>57,069</u>
Expenses:					
Administration	273,194	-	273,194	222,785	50,409
Police	489,585	-	489,585	524,431	(34,846)
Fire	157,891	-	157,891	131,116	26,775
Street	388,786	-	388,786	371,378	17,408
Water	-	2,522,170	2,522,170	2,552,575	(30,405)
Sewer	-	492,445	492,445	451,080	41,365
Total Expenses	<u>1,309,456</u>	<u>3,014,615</u>	<u>4,324,071</u>	<u>4,253,365</u>	<u>70,706</u>
Change in Net Assets	(15,836)	272,783	256,947	270,584	(13,637)
Net Assets, Beginning of Year	1,401,356	25,945,664	27,347,020	27,076,436	270,584
Net Assets, End of Year	<u>\$ 1,385,520</u>	<u>\$ 26,218,447</u>	<u>\$ 27,603,967</u>	<u>\$ 27,347,020</u>	<u>\$ 256,947</u>

Governmental Activities and Business Type Activities

Governmental activities decreased the City's net assets by \$15,836. This resulted from a decrease in insurance premium revenues. Business-type activities increased the City's net assets by \$272,783. 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 \$ _____, primarily due to a decrease in insurance premium taxes.

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

**CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

General Fund Budgetary Highlights

The budget was amended in June 2012 to allow for additional expenses.

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

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$43,738,357, net of accumulated depreciation of \$11,562,755, leaving a net book value of \$32,175,602. 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 \$45,893. Actual expenditures to purchase or construct capital assets were \$899,895 for the year. Depreciation charges for the year totaled \$854,004. 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 \$210,000 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

*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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 operations, 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
December 5, 2012

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Current Assets			
Cash and cash equivalents	\$ 184,224	\$ 291,136	\$ 475,360
Accounts receivables, net			
Customers	-	514,699	514,699
Other	4,981	4,561	9,542
Prepaid expenses	-	-	-
Due from water	502,562	-	502,562
Inventory	-	52,276	52,276
Total Current Assets	691,767	862,672	1,554,439
Non-current Assets			
Restricted cash and cash equivalents	95,944	203,069	299,013
Capital assets, net of accumulated depreciation	711,229	31,464,373	32,175,602
Total Non-current Assets	807,173	31,667,442	32,474,615
Total Assets	1,498,940	32,530,114	34,029,054
Liabilities			
Current Liabilities			
Accounts payable	37,729	86,922	124,651
Accrued expenses	75,691	95,255	170,946
Revenue bonds payable, current	-	217,700	217,700
Due to general	-	502,562	502,562
Accrued interest	-	106,661	106,661
Customer deposits payable	-	138,119	138,119
Total Current Liabilities	113,420	1,147,219	1,260,639
Non-current Liabilities			
Notes payable	-	252,947	252,947
Revenue bonds payable, non-current	-	4,911,500	4,911,500
Total Non-current Liabilities	-	5,164,447	5,164,447
Total Liabilities	113,420	6,311,666	6,425,086
Net Assets			
Investment in capital assets, net of related debt	711,229	26,082,226	26,793,455
Restricted	95,944	203,069	299,013
Unrestricted (deficit)	578,347	(66,847)	511,500
Total Net Assets	\$ 1,385,520	\$ 26,218,448	\$ 27,603,968

**CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
JUNE 30, 2012**

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	\$ 273,194	\$ -	\$ 37,377	\$ -	\$ (235,817)
Police	489,585	-	-	-	(489,585)
Fire	157,891	43,676	-	-	(114,215)
Street	388,786	-	-	-	(388,786)
Total	<u>1,309,456</u>	<u>43,676</u>	<u>37,377</u>	<u>-</u>	<u>(1,228,403)</u>
Business-type activities:					
Water	2,522,170	2,098,200	-	684,074	260,104
Sewer	492,445	245,121	-	120,719	(126,605)
Total	<u>3,014,615</u>	<u>2,343,321</u>	<u>-</u>	<u>804,793</u>	<u>133,499</u>
Total Activities	<u>\$ 4,324,071</u>	<u>\$ 2,386,997</u>	<u>\$ 37,377</u>	<u>\$ 804,793</u>	<u>\$ (1,094,904)</u>

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES (CONTINUED)
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Assts			
Net (expense) revenue	\$ (1,228,403)	\$ 133,499	\$ (1,094,904)
General Revenues			
Taxes	154,964	-	154,964
Licenses, permits, fees	922,662	-	922,662
Intergovernmental	99,586	-	99,586
Fines, arrest fees, and permits	6,759	-	6,759
Other	28,596	139,285	167,881
Total Revenues	1,212,567	139,285	1,351,852
Change in Net Assets	(15,836)	272,784	256,948
Net Assets - Beginning	1,401,356	25,945,664	27,347,020
Net Assets - Ending	\$ 1,385,520	\$ 26,218,448	\$ 27,603,968

CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 184,224	\$ -	\$ 184,224
Accounts receivable			
Customers	-	-	-
Other	4,981	-	4,981
Due from water	502,562	-	502,562
Cash and cash equivalents - restricted	10,941	85,003	95,944
Total Assets	<u>\$ 702,708</u>	<u>\$ 85,003</u>	<u>\$ 787,711</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 37,729	\$ -	\$ 37,729
Accrued expenses	75,691	-	75,691
Total Liabilities	<u>113,420</u>	<u>-</u>	<u>113,420</u>
Fund Balance			
Reserved	10,941	85,003	95,944
Unreserved	578,347	-	578,347
Total Fund Balance	<u>589,288</u>	<u>85,003</u>	<u>674,291</u>
Total Liabilities and Fund Balance	<u>\$ 702,708</u>	<u>\$ 85,003</u>	<u>\$ 787,711</u>

**CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balance - total governmental funds **\$ 674,291**

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

Capital assets of \$1,913,670, net accumulated depreciation of \$1,202,441, are not financial resources and, therefore are not reported in the funds.

711,229

Net assets of governmental activities **\$ 1,385,520**

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 154,964	\$ -	\$ 154,964
Licenses, permits & fees	922,662	-	922,662
Intergovernmental	63,167	73,797	136,964
Service charges	43,676	-	43,676
Fines, arrest fees & permits	6,759	-	6,759
Other	28,596	-	28,596
Total Revenues	<u>1,219,824</u>	<u>73,797</u>	<u>1,293,621</u>
Expenditures			
General & administration department	262,016	-	262,016
Police department	431,234	10,000	441,234
Fire department	142,326	-	142,326
Street department	344,004	40,000	384,004
Total Expenditures	<u>1,179,580</u>	<u>50,000</u>	<u>1,229,580</u>
Net Change in Fund Balance	40,244	23,797	64,041
Fund Balance, Beginning of Year	<u>549,044</u>	<u>61,206</u>	<u>610,250</u>
Fund Balance, End of Year	<u><u>\$ 589,288</u></u>	<u><u>\$ 85,003</u></u>	<u><u>\$ 674,291</u></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, 2012

Net changes in fund balances - total governmental funds **\$ 64,041**

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 \$31,573 was exceeded by depreciation of \$111,450 in the current period.

(79,877)

Change in net assets of governmental activities **\$ (15,836)**

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

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
GOVERNMENTAL REVENUES					
Taxes	\$ 120,000	\$ -	\$ 120,000	\$ 154,964	\$ 34,964
Licenses, permits & fees	792,400	-	792,400	922,662	130,262
Intergovernmental	77,000	-	77,000	136,964	59,964
Fines, arrest fees & permits	5,000	-	5,000	6,759	1,759
Service charge	36,000	-	36,000	43,676	7,676
Other	9,118	-	9,118	28,596	19,478
Total Revenues	<u>1,039,518</u>	<u>-</u>	<u>1,039,518</u>	<u>1,293,621</u>	<u>254,103</u>
GOVERNMENTAL EXPENDITURES					
General & administrative	194,945	-	194,945	262,016	(67,071)
Police	511,653	-	511,653	441,234	70,419
Fire	99,120	-	99,120	142,326	(43,206)
Street	209,800	-	209,800	384,004	(174,204)
Total Expenses	<u>1,015,518</u>	<u>-</u>	<u>1,015,518</u>	<u>1,229,580</u>	<u>(214,062)</u>
Net Change in Fund Balance	24,000	-	24,000	64,041	40,041
Fund Balance - Beginning				<u>610,250</u>	<u>609,500</u>
Fund Balance - Ending				<u>\$ 674,291</u>	<u>\$ 649,541</u>

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 & Administration:					
Salaries	\$ 90,000	\$ -	\$ 90,000	\$ 127,920	\$ (37,920)
Employee benefits	43,145	-	43,145	35,559	7,586
Professional services	11,500	-	11,500	9,769	1,731
Insurance	11,000	-	11,000	17,695	(6,695)
Office expense	3,000	-	3,000	14,696	(11,696)
Telephone & utilities	8,000	-	8,000	7,985	15
Travel & training	3,500	-	3,500	3,682	(182)
Repairs & maintenance	12,000	-	12,000	36,704	(24,704)
Miscellaneous	12,800	-	12,800	8,006	4,794
Capital outlay	-	-	-	-	-
Total General & Administration	<u>194,945</u>	<u>-</u>	<u>194,945</u>	<u>262,016</u>	<u>(67,071)</u>
Police Department:					
Salaries (including incentive pay)	280,000	-	280,000	234,910	45,090
Employee benefits	138,653	-	138,653	122,390	16,263
Vehicle expense	29,000	-	29,000	33,980	(4,980)
Insurance	28,000	-	28,000	11,099	16,901
Professional fees	2,000	-	2,000	1,221	779
Uniform, supplies & equipment	3,000	-	3,000	8,133	(5,133)
Dispatching	15,000	-	15,000	12,375	2,625
Telephone & utilities	7,000	-	7,000	12,008	(5,008)
Travel & training	4,000	-	4,000	550	3,450
Miscellaneous	2,000	-	2,000	3,970	(1,970)
Capital outlay	3,000	-	3,000	598	2,402
Total Police Department	<u>\$ 511,653</u>	<u>\$ -</u>	<u>\$ 511,653</u>	<u>\$ 441,234</u>	<u>\$ 70,419</u>

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	\$ 31,312	\$ (2,992)
Employee benefits	1,200	-	1,200	731	469
Fire personnel allowance	30,000	-	30,000	42,861	(12,861)
Vehicle expense	19,500	-	19,500	29,562	(10,062)
Insurance	3,100	-	3,100	11,100	(8,000)
Travel & training	3,000	-	3,000	1,969	1,031
Supplies & equipment	5,000	-	5,000	15,182	(10,182)
Telephone & utilities	6,000	-	6,000	4,906	1,094
Miscellaneous	3,000	-	3,000	4,703	(1,703)
Capital outlay	-	-	-	-	-
Total Fire Department	99,120	-	99,120	142,326	(43,206)
Street Department:					
Salaries	81,000	-	81,000	89,399	(8,399)
Employee benefits	48,300	-	48,300	37,856	10,444
Vehicle expense	5,000	-	5,000	15,892	(10,892)
Insurance	12,000	-	12,000	11,099	901
Uniforms and supplies	2,000	-	2,000	7,751	(5,751)
Street Lighting	34,000	-	34,000	78,292	(44,292)
Repairs and maintenance	23,500	-	23,500	102,958	(79,458)
Miscellaneous	4,000	-	4,000	9,782	(5,782)
Capital outlay	-	-	-	30,975	(30,975)
Total Street Department	\$ 209,800	\$ -	\$ 209,800	\$ 384,004	\$ (174,204)

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	Water & Sewer Utilities	Total Enterprise Funds
Assets		
Current Assets		
Cash & cash equivalents	\$ 291,136	\$ 291,136
Accounts receivables, net		
Customers	514,699	514,699
Other receivable	4,561	4,561
Inventory	52,276	52,276
Prepaid insurance	-	-
Total Current Assets	862,672	862,672
Non-current Assets		
Restricted cash and cash equivalents	203,069	203,069
Capital assets, net of accumulated depreciation	31,464,373	31,464,373
Total Non-current Assets	31,667,442	31,667,442
Total Assets	32,530,114	32,530,114
Liabilities		
Current Liabilities		
Accounts payable	86,922	86,922
Accrued expenses	95,255	95,255
Revenue bonds payable, current	217,700	217,700
Due to General	502,562	502,562
Accrued interest	106,661	106,661
Customer deposits payable	138,119	138,119
Total Current Liabilities	1,147,219	1,147,219
Non-current Assets		
Notes payable	252,947	252,947
Revenue bonds payable, non-current	4,911,500	4,911,500
Total Non-current Assets	5,164,447	5,164,447
Total Liabilities	6,311,666	6,311,666
Net Assets		
Investment in capital assets, net of related debt	26,082,226	26,082,226
Restricted	203,069	203,069
Unrestricted	(66,847)	(66,847)
Total Net Assets	\$ 26,218,448	\$ 26,218,448

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Water Utilities</u>	<u>Sewer Utilities</u>	<u>Total Enterprise Fund</u>
Operating Revenues			
Charges for services	\$ 2,098,200	\$ 245,121	\$ 2,343,321
Miscellaneous	113,540	20,037	133,577
Total Operating Revenues	<u>2,211,740</u>	<u>265,158</u>	<u>2,476,898</u>
Operating Expenses			
Salaries	541,578	117,606	659,184
Employee benefits	261,686	45,151	306,837
Professional services	7,744	5,381	13,125
Repairs, parts & supplies	135,227	34,413	169,640
Utilities & telephone	477,123	53,953	531,076
Lab & chemicals	185,698	17,968	203,666
Office expense	-	5,602	5,602
Vehicle expense	76,841	7,900	84,741
Insurance	20,660	23,048	43,708
Depreciation	606,885	135,668	742,553
Bad debt provision	20,982	2,451	23,433
Travel and training	5,723	1,063	6,786
Miscellaneous	33,132	5,018	38,150
Total Operating Expenses	<u>2,373,279</u>	<u>455,222</u>	<u>2,828,501</u>
Operating Income (Loss)	<u>(161,539)</u>	<u>(190,064)</u>	<u>(351,603)</u>
Non-operating Revenues (Expenses)			
Interest income	4,566	1,141	5,707
Interest expense	(148,890)	(37,223)	(186,113)
Capital grants & contributions	684,074	120,719	804,793
Total Non-operating Revenues (Expenses)	<u>539,750</u>	<u>84,637</u>	<u>624,387</u>
Change in Net Assets	<u>\$ 378,211</u>	<u>\$ (105,427)</u>	<u>272,784</u>
Net Assets - Beginning of Year			<u>25,945,664</u>
Net Assets - End of Year			<u>\$ 26,218,448</u>

**CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

Cash flows from operating activities	
Cash received from customers	\$ 2,327,743
Cash received from other sources	133,577
Cash payments to suppliers and vendors	(1,065,422)
Cash payments to employees	(960,111)
Net cash provided by operating activities	<u>435,787</u>
 Cash flows from capital and related financing activities	
Cash received from loan	11,050
Cash received from interfund loans	16,313
Cash received from grants	804,793
Principal and interest paid on revenue bonds	(408,704)
Acquisition and construction of capital assets	(869,618)
Net cash used by capital and related financing activities	<u>(446,166)</u>
 Cash flows from investing activities	
Cash received from interest income	5,707
Net cash provided by investing activities	<u>5,707</u>
Net decrease in cash and cash equivalents	(4,672)
Cash and cash equivalents at June 30, 2011	<u>498,877</u>
Cash and cash equivalents at June 30, 2012	<u><u>\$ 494,205</u></u>
 Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (351,603)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and bad debt	765,986
Changes in assets and liabilities	
(Increase) decrease in customer accounts receivable	(38,653)
(Increase) decrease in prepaid expenses	5,054
(Increase) decrease in inventory	30,023
Increase (decrease) in accounts payable	(5,963)
Increase (decrease) in accrued expenses	7,868
Increase (decrease) in customer deposits	23,075
Total Adjustments	<u>787,390</u>
Net cash provided by operating activities	<u><u>\$ 435,787</u></u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012

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, 2012

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, 2012 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 2012, the original budget was approved during May 2011 and was amended in 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, 2012

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, 2012, the liability for accrued vacation leave is approximately \$41,588. 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, 2012, the City had no funds with a deficit fund balance. However, the following funds had an excess of expenditures over budgeted amounts:

General & administrative	\$ 67,071
Fire	43,206
Street	<u>174,204</u>
	<u>\$ 284,481</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.

L. Date of Management's Review

Subsequent events were evaluated through December 5, 2012, which is the date the financial statements were available to be issued.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

At June 30, 2012, the carrying amounts of the City's cash deposit and investment accounts (including certificates of deposits), both restricted and unrestricted were \$774,372. The bank balances at June 30, 2012, was \$914,080 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, 2012 consisted of the following:

<u>Account</u>	<u>Interest Bearing</u>	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Operating	√	\$ 43,641	\$ 56,903	\$ 100,544
LGEAF	√	18,108	-	18,108
Municipal Road Aid	√	66,895	-	66,895
Dare Program	√	321	-	321
Drug Ratification	√	10,619	-	10,619
Depreciation Fund	√	-	19,909	19,909
Improvement and Refunding	√	-	58,598	58,598
Bald Rock Wells	√	-	-	-
Sinking Fund 2	√	-	2,090	2,090
Raw Water Intake KIA-HB	√	-	907	907
Raw Water Intake Exec Order	√	-	176	176
Regions Sinking Fund	√	-	121,389	121,389
Certificates of Deposit	√	40,474	234,233	274,707
Certificates of Deposit	√	100,110	-	100,110
Total		<u>\$ 280,168</u>	<u>\$ 494,205</u>	<u>\$ 774,373</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, 2012, the City's bank accounts in the amount of \$914,080 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, 2012**

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, 2012 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 2012	Outstanding 6/30/2012
91-10	4.5%	06/02/94	01/02/32	\$ 568,000	\$ 16,000	\$ 552,000
91-11	4.5%	12/05/96	01/02/36	412,000	9,500	402,500
91-15	5.0%	01/26/00	01/02/40	1,346,000	21,000	1,325,000
2004 D	3.06-4.56%	10/19/04	11/01/29	1,538,000	144,000	1,394,000
2004 A	4.5%	07/01/04	01/01/44	660,000	9,000	651,000
2004 B	4.5%	07/01/04	01/01/44	416,500	5,500	411,000
2005 B	4.5%	06/01/05	01/01/44	71,700	1,000	70,700
2005 A	4.5%	12/07/07	01/01/46	327,000	4,000	323,000
Totals				<u>\$ 5,339,200</u>	<u>\$ 210,000</u>	<u>\$ 5,129,200</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012 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>
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>\$ 323,000</u>	<u>\$ 313,516</u>	<u>\$ 636,516</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012 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>	
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>\$ 402,500</u>	<u>\$ 264,449</u>	<u>\$ 666,949</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012 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>	
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	<u>\$ 1,325,000</u>	<u>\$ 1,164,750</u>	<u>\$ 2,489,750</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012 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>	
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	\$ 1,394,000	\$ 410,446	\$ 1,804,446

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012 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>
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	<u>\$ 651,000</u>	<u>\$ 558,272</u>	<u>\$ 1,209,272</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012 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>	
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	<u>\$ 411,000</u>	<u>\$ 353,341</u>	<u>\$ 764,341</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012 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>
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	\$ 70,700	\$ 60,921	\$ 131,621

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012 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>	
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>\$ 323,000</u>	<u>\$ 313,516</u>	<u>\$ 636,516</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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
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
2017	144,700	193,777	338,477
Thereafter	4,046,100	2,359,717	6,405,817
Totals	\$ 5,129,200	\$ 3,425,422	\$ 8,554,622

The following is a summary of debt transactions of the City for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Revenue Bonds	\$ 5,339,200	\$ -	\$ 210,000	\$ 5,129,200	\$ 217,700
Notes Payable	241,897	11,050	-	252,947	-
	\$ 5,581,097	\$ 11,050	\$ 210,000	\$ 5,382,147	\$ 217,700

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012 and 2011, the allowance account was 36% and 35% of the past due amounts, respectively.

		<u>Total Billings</u>		<u>Bad Debts</u>		<u>Percentage of Bad Debts to Billings</u>
June 30, 2012	\$	2,343,321	\$	23,433	\$	1.00%
June 30, 2011	\$	2,270,735	\$	23,905	\$	1.05%

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

	<u>Balance</u>				<u>Balance</u>
Governmental activities	June 30, 2011	Additions	Retirements	Retirements	June 30, 2012
Assets					
Land	\$ 83,086	\$ -	\$ -	\$ -	\$ 83,086
Buildings	274,267	-	-	-	274,267
Trucks & Equipment	1,025,655	30,975	25,353	-	1,031,277
Furniture & Fixtures	53,717	598	-	-	54,315
Street Repair	458,082	-	-	-	458,082
Landscaping	12,643	-	-	-	12,643
Total	<u>\$ 1,907,450</u>	<u>\$ 31,573</u>	<u>\$ 25,353</u>	<u>\$ -</u>	<u>\$ 1,913,670</u>

	<u>Balance</u>				<u>Balance</u>
Accumulated Depreciation	July 1, 2011	Additions	Retirements	Retirements	June 30, 2012
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings	178,702	9,260	-	-	187,962
Trucks & Equipment	744,704	70,472	25,353	-	789,823
Furniture & Fixtures	50,384	1,179	-	-	51,563
Street Repair	129,911	30,539	-	-	160,450
Landscaping	12,643	-	-	-	12,643
Total	<u>\$ 1,116,344</u>	<u>111,450</u>	<u>25,353</u>	<u>-</u>	<u>1,202,441</u>

Net Capital Assets, Governmental Activities	<u><u>\$ 711,229</u></u>
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CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Business-Type Activities:	Balance			Balance
Assets	July 1, 2011	Additions	Retirements	June 30, 2012
Land	\$ 340,661	\$ -	\$ -	\$ 340,661
Buildings	106,670	-	-	106,670
Office Equipment	35,442	-	-	35,442
Sewer Trucks and Equipment	78,347	-	-	78,347
Sewer Utility Plant	5,381,972	-	-	5,381,972
Water House and Building	87,907	-	-	87,907
Water Trucks	401,070	15,301	17,650	398,721
Water Utility Plant	23,371,041	599,237	-	23,970,278
Construction in Progress	11,170,905	830,096	576,312	11,424,689
Total	\$ 40,974,015	\$ 1,444,634	\$ 593,962	\$ 41,824,687

Accumulated Depreciation	Balance			Balance
	July 1, 2011	Additions	Retirements	June 30, 2012
Land	\$ -	\$ -	\$ -	\$ -
Buildings	19,998	2,667	-	22,665
Office Equipment	30,056	2,025	-	32,081
Sewer Trucks and Equipment	72,671	1,426	-	74,097
Sewer Utility Plant	1,187,068	134,241	-	1,321,309
Water House and Building	45,176	2,785	-	47,961
Water Trucks and Equipment	380,211	9,571	16,600	373,182
Water Utility Plant	7,899,180	589,839	-	8,489,019
Construction in Progress	-	-	-	-
Total	\$ 9,634,360	\$ 742,554	\$ 16,600	\$ 10,360,314

Net Capital Assets, Business-Type Activities	\$ 31,464,373
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NOTE 7 - RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications have been made to the June 30, 2011 information to make them comparable to June 30, 2012.

NOTE 8 - 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.

NOTE 9 - RESTRICTED ASSETS

Certain proprietary fund and similar component unit assets area 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, 2012

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)	\$ 2,151	\$ 25,790
Base Court Revenues	2,829	11,254
Other - Grants	-	37,377
Total	<u><u>\$ 4,980</u></u>	<u><u>\$ 74,421</u></u>
 Special Revenue Fund		
LGEA	\$ -	\$ 22,139
Municipal Road Aid	-	51,658
Total	<u><u>\$ -</u></u>	<u><u>\$ 73,797</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	\$ 502,562	\$ -
Municipal Road Aid	-	-
Proprietary	-	502,562
Total	<u><u>\$ 502,562</u></u>	<u><u>\$ 502,562</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, 2012, 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, 2012**

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

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

NOTE 16 - 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.

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 18.96% 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 18.96% of non-hazardous compensation for the year ended June 30, 2012. Total contributions made during the fiscal year were as follows:

	June 30, 2012	June 30, 2011
City's total payroll per financial statements	1,130,349	1,144,892
Payroll for employees covered under CERS	1,033,678	1,000,958
CERS contributions:		
Employees	51,684	50,048
Employer	195,985	169,462

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, 2012**

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**

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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, 2012, which collectively comprise the City of Albany, Kentucky's basic financial statements and have issued my report thereon dated November 15, 2012. 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
December 5, 2012

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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
December 5, 2012

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2012-01 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, 2012**

Recommendation:

Specific recommendations are:

1. Have management initial cash collection reports as a function of the accounting process.
2. Management should continue to rely on the auditors to prepare their financial statements and note disclosures.

Views of Responsible Officials:

Management concurs with recommendations. 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.