

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2010

**CITY OF ALBANY, KENTUCKY
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For the Year Ended June 30, 2010**

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CITY OF ALBANY
204 CROSS STREET
ALBANY, KENTUCKY
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CITY OFFICIALS AND OFFICERS

MAYOR

John N. Smith

MEMBERS OF COUNCIL

Steve Lawson
Tony Delk
Doug Thrasher
James Bray
Leland Hicks
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, 2010

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, 2010. 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 \$27,076,436.

The City's total net assets increased by \$2,307,488 during the year.

The City's total long-term debt decreased by \$557,262 during the fiscal year.

The City's capital assets increased by \$2,464,119 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 are provided to explain the differences created by the integrated approach.

Government-Wide Financial Statements

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

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

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

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

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

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

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

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

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

Fund Financial Statements

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

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

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

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

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 \$27,076,436 at the end of 2010, compared to \$24,647,302 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			
	2010	2009	Change	% Change
Current Assets	\$ 650,486	\$ 563,886	\$ 86,600	15.36%
Noncurrent Assets	994,567	969,022	25,545	2.64%
Total Assets	1,645,053	1,532,908	112,145	7.32%
Current Liabilities	57,646	67,147	(9,501)	-14.15%
Noncurrent Liabilities	0	0	0	0.00%
Total Liabilities	57,646	67,147	(9,501)	-14.15%
Invested in Capital Assets, Net	886,453	860,145	26,308	3.06%
Restricted	108,114	155,062	(46,948)	-30.28%
Unrestricted	592,840	450,554	142,286	31.58%
Total Net Assets	\$ 1,587,407	\$ 1,465,761	\$ 121,646	8.30%

	Business-Type Activities			
	2010	2009	Change	% Change
Current Assets	\$ 768,986	\$ 826,493	\$ (57,507)	-6.96%
Noncurrent Assets	31,203,566	29,400,565	1,803,001	100.00%
Total Assets	31,972,552	30,227,058	1,745,494	5.77%
Current Liabilities	1,000,423	986,355	14,068	1.43%
Noncurrent Liabilities	5,483,100	6,059,162	(576,062)	100.00%
Total Liabilities	6,483,523	7,045,517	(561,994)	-7.98%
Invested in Capital Assets, Net	25,083,827	22,832,985	2,250,842	9.86%
Restricted	429,439	320,018	109,421	34.19%
Unrestricted	(24,237)	28,538	(52,775)	-184.93%
Total Net Assets	\$ 25,489,029	\$ 23,181,541	\$ 2,307,488	9.95%

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

Financial Overview - Statement of Activities

Approximately 36 percent of the City's total revenue resulted from charges for services, while 2 percent were from taxes. Charges for various sources, investment income and grant income provided 62 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 sanitation. Governmental activity revenues exceeded expenses by \$121,646. Business-type activity revenues exceeded expenses by \$2,307,488.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>2009</u>	<u>Difference</u>
Revenues:					
Charges for Services	\$ 44,249	\$ 2,308,953	\$ 2,353,202	\$ 2,280,837	\$ 72,365
Taxes - property	135,279	0	135,279	672,055	(536,776)
Licenses	852,674	0	852,674	217,769	634,905
Intergovernmental Revenue	78,205	0	78,205	118,032	(39,827)
Grants	128,363	2,862,828	2,991,191	708,776	2,282,415
Other	46,951	121,285	168,236	229,185	(60,949)
Total Revenues	<u>1,285,721</u>	<u>5,293,066</u>	<u>6,578,787</u>	<u>4,226,654</u>	<u>2,352,133</u>
Expenses:					
Administration	196,482	0	196,482	208,069	(11,587)
Police	490,550	0	490,550	510,775	(20,225)
Fire	138,308	0	138,308	132,055	6,253
Street	338,735	0	338,735	321,700	17,035
Water	0	2,596,631	2,596,631	2,525,630	71,001
Sewer	0	388,947	388,947	393,550	(4,603)
Total Expenses	<u>1,164,075</u>	<u>2,985,578</u>	<u>4,149,653</u>	<u>4,091,779</u>	<u>57,874</u>
Change in Net Assets	121,646	2,307,488	2,429,134	134,875	2,294,259
Net Assets, Beginning of Year	1,465,761	23,181,541	24,647,302	24,512,427	134,875
Net Assets, End of Year	<u>\$ 1,587,407</u>	<u>\$ 25,489,029</u>	<u>\$ 27,076,436</u>	<u>\$ 24,647,302</u>	<u>\$ 2,429,134</u>

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

Governmental Activities and Business Type Activities

Governmental activities increased the City's net assets by \$121,646. This resulted from an increase in grant and intergovernmental revenues. Business-type activities increased the City's net assets by \$2,440,747. This resulted from an increase in service revenue and grants.

Financial Analysis of the City's Funds

The fund balance at year-end for the City's General Fund increased by \$72,702 primarily due to an increase in grants received during the year.

The fund balance at year-end for the Special Revenue Fund decreased by \$22,617 primarily due to an increase in road aid funding.

General Fund Budgetary Highlights

The budget was not amended in 2010.

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

CITY OF ALBANY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2010

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$41,562,989, net of accumulated depreciation of \$9,902,409, leaving a net book value of \$31,660,580. 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 \$2,410,409. Actual expenditures to purchase or construct capital assets were \$2,464,119 for the year. Depreciation charges for the year totaled \$744,230. 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 \$557,262 during the current fiscal year. No general obligation or revenue bonds were issued during the year. Additional information on the City's long-term debt obligations can be found in Note 4 of the notes to the financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

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

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

Request for Information

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

City of Albany
204 Cross Street
Albany, Kentucky 42717

SAMMY K. LEE, P.S.C.

Certified Public Accountant

501 Darby Creek, Unit 24

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Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 15, 2010, on my consideration of the City of Albany, Kentucky's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 18 through 20, be presented to supplement the basic financial statements. Such information, although not 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 inquires of management regarding 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 us 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 basic 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 basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual non-major 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 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 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sammy K. Lee, P.S.C.

Lexington, Kentucky
October 15, 2010

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Current Assets			
Cash and cash equivalents	\$ 231,870	\$ 238,633	\$ 470,503
Accounts receivables, net of allowance			
Customers	177	449,601	449,778
Other	2,729	3,636	6,365
Due from Water	415,710	0	415,710
Inventory	0	77,116	77,116
Total Current Assets	650,486	768,986	1,419,472
Noncurrent Assets			
Restricted cash	108,114	429,439	537,553
Capital assets, net of accumulated depreciation	886,453	30,774,127	31,660,580
Total Noncurrent Assets	994,567	31,203,566	32,198,133
Total Assets	1,645,053	31,972,552	33,617,605
Liabilities			
Current Liabilities			
Accounts payable	24,596	62,758	87,354
Accrued expenses	33,050	52,123	85,173
Revenue bonds payable, current	0	207,200	207,200
Due to General	0	415,710	415,710
Accrued interest	0	156,170	156,170
Customer deposits payable	0	106,462	106,462
Total Current Liabilities	57,646	1,000,423	1,058,069
Noncurrent Liabilities			
Notes payable	0	147,900	147,900
Revenue bonds payable, noncurrent	0	5,335,200	5,335,200
Total Noncurrent Liabilities	0	5,483,100	5,483,100
Total Liabilities	57,646	6,483,523	6,541,169
Net Assets			
Investment in capital assets, net of related debt	886,453	25,083,827	25,970,280
Restricted	108,114	429,439	537,553
Unrestricted	592,840	(24,237)	568,603
Total Net Assets	\$ 1,587,407	\$ 25,489,029	\$ 27,076,436

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 196,482	\$ 0	\$ 26,172	\$ 0
Police	490,550	0	0	99,145
Fire	138,308	44,249	0	0
Street	338,735	0	0	0
Total	1,164,075	44,249	26,172	99,145
Business-type activities:				
Water	2,596,631	2,033,530	0	2,433,404
Sewer	388,947	275,423	0	429,424
Total	2,985,578	2,308,953	0	2,862,828
Total Activities	\$ 4,149,653	\$ 2,353,202	\$ 26,172	\$ 2,961,973
				\$ 1,191,694

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Assts			
Net (expense) revenue	<u>\$ (994,509)</u>	<u>\$ 2,186,203</u>	<u>\$ 1,191,694</u>
General Revenues			
Taxes	135,279	0	135,279
Licenses, permits, & fees	852,674	0	852,674
Intergovernmental	81,251	0	81,251
Fines, arrest fees and permits	16,310	0	16,310
Other	30,641	121,285	151,926
Total Revenues	<u>1,116,155</u>	<u>121,285</u>	<u>1,237,440</u>
Change in Net Assets	121,646	2,307,488	2,429,134
Net Assets - Beginning	<u>1,465,761</u>	<u>23,181,541</u>	<u>24,647,302</u>
Net Assets - Ending	<u><u>\$ 1,587,407</u></u>	<u><u>\$ 25,489,029</u></u>	<u><u>\$ 27,076,436</u></u>

CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 231,870	\$ 0	\$ 231,870
Accounts receivable:			
Customers	177	0	177
Other	2,729	0	2,729
Due from water	415,710	0	415,710
Cash and cash equivalents - restricted	11,605	96,509	108,114
Total Assets	<u><u>\$ 662,091</u></u>	<u><u>\$ 96,509</u></u>	<u><u>\$ 758,600</u></u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 24,596	\$ 0	\$ 24,596
Accrued expenses	33,050	0	33,050
Total Liabilities	<u>57,646</u>	<u>0</u>	<u>57,646</u>
Fund Balance			
Reserved	11,605	96,509	108,114
Unreserved	592,840	0	592,840
Total Fund Balance	<u>604,445</u>	<u>96,509</u>	<u>700,954</u>
Total Liabilities and Fund Balance	<u><u>\$ 662,091</u></u>	<u><u>\$ 96,509</u></u>	<u><u>\$ 758,600</u></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, 2010**

Total fund balance - total governmental funds	\$ 700,954
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Amounts reported for *government activities* in the statement of net assets are different because:

Capital assets of \$1,884,522 net accumulated depreciation of \$998,069, are not financial resources and, therefore are not reported in the funds.

886,453

Net assets of governmental activities

\$ 1,587,407

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 135,279	\$ 0	\$ 135,279
Licenses, permits, & fees	852,674	0	852,674
Intergovernmental	154,124	52,444	206,568
Service charges	44,249	0	44,249
Fines, arrest fees and permits	16,310	0	16,310
Other	30,468	173	30,641
Total Revenues	<u>1,233,104</u>	<u>52,617</u>	<u>1,285,721</u>
Expenditures			
General & administration department	190,089	0	190,089
Police department	574,764	10,000	584,764
Fire department	111,238	0	111,238
Street department	284,311	20,000	304,311
Total Expenditures	<u>1,160,402</u>	<u>30,000</u>	<u>1,190,402</u>
Net Change in Fund Balance	72,702	22,617	95,319
Fund Balance, Beginning of the Year	<u>488,385</u>	<u>117,250</u>	<u>605,635</u>
Fund Balance, End of Year	<u>\$ 561,087</u>	<u>\$ 139,867</u>	<u>\$ 700,954</u>

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, 2010

Net changes in fund balances - total governmental funds	\$ 95,319
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Amounts reported for *government activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$138,712 exceeded depreciation of \$112,385 in the current period.

26,327

Change in net assets of governmental activities	<u>\$ 121,646</u>
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See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
June 30, 2010

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>GOVERNMENTAL REVENUES</u>					
Taxes	\$ 125,000	\$ 0	\$ 125,000	\$ 135,279	\$ 10,279
Licenses, fees, and other tax	702,400	0	702,400	852,674	150,274
Intergovernmental	77,000	0	77,000	206,568	129,568
Fines, arrest fees and permits	5,000	0	5,000	16,310	11,310
Service charges	38,000	0	38,000	44,249	6,249
Other	31,400	0	31,400	30,641	(759)
Total Revenues	<u>978,800</u>	<u>0</u>	<u>978,800</u>	<u>1,285,721</u>	<u>306,921</u>
<u>GOVERNMENTAL EXPENDITURES</u>					
General and Administrative	196,000	0	196,000	190,089	5,911
Police	492,175	0	492,175	584,764	(92,589)
Fire	99,120	0	99,120	111,238	(12,118)
Street	262,530	0	262,530	304,311	(41,781)
Total Expenses	<u>1,049,825</u>	<u>0</u>	<u>1,049,825</u>	<u>1,190,402</u>	<u>(140,577)</u>
Net Change in Fund Balance	(71,025)	0	(71,025)	95,319	166,344
Fund Balance - Beginning				<u>605,635</u>	<u>605,635</u>
<u>FUND BALANCE - ENDING</u>				<u>\$ 700,954</u>	<u>\$ 771,979</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, 2010

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
EXPENDITURES					
General & Administration:					
Salaries	\$ 90,000	\$ 0	\$ 90,000	\$ 85,469	\$ 4,531
Employee benefits	35,200	0	35,200	33,068	2,132
Professional services	13,000	0	13,000	8,221	4,779
Insurance	9,000	0	9,000	10,876	(1,876)
Office expense	5,000	0	5,000	9,556	(4,556)
Telephone and utilities	8,000	0	8,000	11,710	(3,710)
Travel and training	4,000	0	4,000	2,411	1,589
Repairs and maintenance	15,500	0	15,500	15,730	(230)
Miscellaneous	16,300	0	16,300	6,248	10,052
Capital outlay	0	0	0	6,800	(6,800)
Debt Service	0	0	0	0	0
Total General & Administration	<u>196,000</u>	<u>0</u>	<u>196,000</u>	<u>190,089</u>	<u>5,911</u>
Police Department:					
Salaries (including incentive pay)	275,000	0	275,000	261,728	13,272
Employee benefits	125,175	0	125,175	105,292	19,883
Vehicle expense	44,000	0	44,000	30,475	13,525
Insurance	5,000	0	5,000	8,590	(3,590)
Professional fees	2,000	0	2,000	2,202	(202)
Uniform, supplies and equipment	4,000	0	4,000	9,168	(5,168)
Dispatching	15,000	0	15,000	16,500	(1,500)
Telephone and utilities	8,000	0	8,000	16,208	(8,208)
Travel and training	4,000	0	4,000	1,484	2,516
Miscellaneous	6,000	0	6,000	339	5,661
Capital outlay	4,000	0	4,000	132,778	(128,778)
Debt service	0	0	0	0	0
Total Police Department	<u>492,175</u>	<u>0</u>	<u>492,175</u>	<u>584,764</u>	<u>(92,589)</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, 2010

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
Fire Department:					
Salaries	13,320	0	13,320	11,301	2,019
Employee benefits	1,800	0	1,800	3,358	(1,558)
Firemen incentives	30,000	0	30,000	38,089	(8,089)
Vehicle expense	19,500	0	19,500	17,440	2,060
Insurance	2,500	0	2,500	8,590	(6,090)
Travel and training	3,000	0	3,000	736	2,264
Supplies and equipment	5,000	0	5,000	6,577	(1,577)
Telephone and utilities	6,000	0	6,000	3,379	2,621
Dispatching	15,000	0	15,000	16,500	(1,500)
Miscellaneous	3,000	0	3,000	5,268	(2,268)
Capital outlay	0	0	0	0	0
Total Fire Department	<u>99,120</u>	<u>0</u>	<u>99,120</u>	<u>111,238</u>	<u>(12,118)</u>
Street Department:					
Salaries	78,730	0	78,730	86,477	(7,747)
Employee benefits	51,800	0	51,800	39,849	11,951
Vehicle expense	6,000	0	6,000	7,037	(1,037)
Insurance	6,000	0	6,000	8,590	(2,590)
Uniforms and supplies	4,500	0	4,500	8,676	(4,176)
Street lighting	40,000	0	40,000	70,652	(30,652)
Street repairs and maintenance	20,000	0	20,000	67,868	(47,868)
Miscellaneous	2,000	0	2,000	5,775	(3,775)
Community development	3,500	0	3,500	4,200	(700)
Capital outlay	50,000	0	50,000	5,187	44,813
Total Street Department	<u>262,530</u>	<u>0</u>	<u>262,530</u>	<u>304,311</u>	<u>(41,781)</u>
Total	<u>\$ 1,049,825</u>	<u>\$ 0</u>	<u>\$ 1,049,825</u>	<u>\$ 1,190,402</u>	<u>\$ (140,577)</u>

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2010

	Total Water & Sewer Utilities
Assets	
Current Assets	
Cash and cash equivalents	\$ 238,633
Accounts receivables, net of allowance for doubtful amounts	
Customers	449,601
Other	3,636
Inventory	77,116
Total Current Assets	768,986
Noncurrent Assets	
Restricted cash	429,439
Capital assets, net of accumulated depreciation	30,774,127
Total Noncurrent Assets	31,203,566
Total Assets	31,972,552
Liabilities	
Current Liabilities	
Accounts payable	62,758
Accrued expenses	52,123
Revenue bonds payable, current	207,200
Due to General	415,710
Accrued interest	156,170
Customer deposits payable	106,462
Total Current Liabilities	1,000,423
Noncurrent Liabilities	
Notes payable	147,900
Revenue bonds payable, noncurrent	5,335,200
Total Noncurrent Liabilities	5,483,100
Total Liabilities	6,483,523
Net Assets	
Investment in capital assets, net of related debt	25,083,827
Restricted	429,439
Unrestricted	(24,237)
Total Net Assets	\$ 25,489,029

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2010

	<u>Water Utilities</u>	<u>Sewer Utilities</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Charges for services	\$ 2,033,530	\$ 275,423	\$ 2,308,953
Miscellaneous	110,789	2,865	113,654
Total Operating Revenues	<u>2,144,319</u>	<u>278,288</u>	<u>2,422,607</u>
Operating Expenses			
Salaries	577,486	88,970	666,456
Employee benefits	253,500	45,644	299,144
Professional services	8,752	10,022	18,774
Repairs, parts, and supplies	356,627	32,290	388,917
Utilities and telephone	476,373	57,535	533,908
Office expense	46,387	6,342	52,729
Vehicle expense	48,860	5,424	54,284
Insurance	22,027	14,961	36,988
Depreciation	549,705	82,140	631,845
Bad debt provision	14,720	2,598	17,318
Miscellaneous	3,558	910	4,468
Total Operating Expenses	<u>2,357,995</u>	<u>346,835</u>	<u>2,704,830</u>
Operating Income (Loss)	<u>(213,676)</u>	<u>(68,547)</u>	<u>(282,223)</u>
Nonoperating Revenues (Expenses)			
Interest income	6,486	1,145	7,631
Interest expense	(238,636)	(42,112)	(280,748)
Capital grants and contributions	2,433,404	429,424	2,862,828
Total Nonoperating Revenues (Expenses)	<u>2,201,254</u>	<u>388,457</u>	<u>2,589,711</u>
Change in Net Assets	<u>1,987,579</u>	<u>319,909</u>	<u>2,307,488</u>
Net Assets - Beginning of the Year	<u>19,331,042</u>	<u>3,850,499</u>	<u>23,181,541</u>
Net Assets - End of Year	<u>\$ 21,318,621</u>	<u>\$ 4,170,408</u>	<u>\$ 25,489,029</u>

CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2010

Cash flows from operating activities:

Cash received from customers and other sources	\$ 2,405,013
Cash payments to suppliers for goods and services and cash paid employees	(2,122,217)
Net cash provided by operating activities	<u>282,796</u>

Cash flows from capital and related financing activities:

Proceeds received from grants	2,862,828
Proceeds received from notes	134,338
Principal and interest paid on revenue bonds	(914,049)
Acquisition and construction of capital assets	(2,325,427)
Net cash used by capital and related financing activities	<u>(242,310)</u>

Cash flows from investing activities

Cash received from interest income	7,900
Net cash provided by investing activities	<u>7,900</u>

Net increase in cash and cash equivalents **48,386**

Cash and cash equivalents at June 30, 2009 **619,686**

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

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

Operating loss	\$ (282,223)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	649,163
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	(14,544)
(Increase) decrease in other receivables	(3,050)
(Increase) decrease in prepaid expenses	12,122
(Increase) decrease in inventory	1,571
Increase (decrease) in accounts payable	(94,301)
Increase (decrease) in accrued expenses	4,866
Increase (decrease) in customer deposits	9,192

Total Adjustments **565,019**

Net cash provided by operating activities: **\$ 282,796**

See accompanying notes to financial statements.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Measurement Focus (continued)

Government-Wide Financial Statements

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

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

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

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Accounting/Measurement Focus (continued)

Governmental Fund Financial Statements (continued)

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.

C. Investments

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

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2010 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 2010, the original budget was approved during May 2009 and was amended in June 2010. 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, 2010

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, 2010, the liability for accrued vacation leave is approximately \$36,075. 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, 2010, the City had no funds with a deficit fund balance.

K. Inventory

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

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 2. CASH DEPOSITS AND INVESTMENTS

At June 30, 2010, the carrying amounts of the City's cash deposit and investment accounts (including certificates of deposits), both restricted and unrestricted were \$1,008,056. The bank balances at June 30, 2010, were \$1,062,578 which were either insured or collateralized with securities held by pledging financial institutions in the City's name. Cash and investments, both restricted and unrestricted, at June 30, 2010, consisted of the following:

Account	Interest Bearing	General	Water and Sewer	Total
Operating	√	\$ 121,042	\$ 14,681	\$ 135,723
LGEAF	√	3,577	0	3,577
Municipal Road Aid	√	92,933	0	92,933
Dare Program	√	421	0	421
Drug Ratification	√	11,184	0	11,184
Depreciation Fund	√	0	14,609	14,609
Water Line Industrial Park	√	0	1,281	1,281
Sewer Line Extension	√	0	161	161
Improvement and Refunding	√	0	117,645	117,645
Bald Rock Wells	√	0	2,699	2,699
Sinking Fund 2	√	0	2,614	2,614
Waste Water Renovation	√	0	124,562	124,562
Duvall Valley Water Line	√	0	42,281	42,281
Raw Water Intake KIA-HB	√	0	907	907
Regions Sinking Fund	√	0	122,609	122,609
Certificates of Deposit	√	110,827	224,024	334,852
Total:		\$ 339,984	\$ 668,072	\$ 1,008,056

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 a means of managing its exposure to fair value losses arising from increasing interest rates. Management believes the City is not exposed to significant interest rate risk on investments.

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

Custodial Credit Risk: Is the risk that the Authority's deposits may not be returned in the event of bank failure. The Authority maintains its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC). As of June 30, 2010, the City's bank accounts 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, 2010

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, 2010 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

The following is a description of the City's bonds outstanding as of June 30, 2010:

Issue	Interest Rates	Issue Date	Maturity Date	Original Amount	Retired in 2010	Outstanding 6/30/2010
91-10	4.5%	06/02/94	01/02/32	748,000	14,500	583,000
91-11	4.5%	12/05/96	01/02/36	500,000	8,500	420,500
91-15	5.0%	01/26/00	01/02/40	1,500,000	19,000	1,367,000
2004 D	3.06-4.56%	10/19/04	11/01/29	2,334,000	134,000	1,678,000
2004 A	4.5%	07/01/04	01/01/44	700,000	8,500	668,500
2004 B	4.5%	07/01/04	01/01/44	442,000	5,500	422,000
2005 B	4.5%	06/01/05	01/01/44	76,000	900	72,600
2005 A	4.5%	12/07/07	01/01/46	338,000	3,700	330,800
Totals				<u>\$ 6,638,000</u>	<u>\$ 194,600</u>	<u>\$ 5,542,400</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2010 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>
2011	15,000	26,235	41,235
2012	16,000	25,560	41,560
2013	16,500	24,840	41,340
2014	17,500	24,098	41,598
2015	18,500	23,310	41,810
2016	19,500	22,478	41,978
2017	20,500	21,600	42,100
2018	21,500	20,678	42,178
2019	22,500	19,710	42,210
2020	23,500	18,698	42,198
2021	25,000	17,640	42,640
2022	26,000	16,515	42,515
2023	27,500	15,345	42,845
2024	28,500	14,108	42,608
2025	30,000	12,825	42,825
2026	31,500	11,475	42,975
2027	33,000	10,058	43,058
2028	35,000	8,573	43,573
2029	36,500	6,998	43,498
2030	38,500	5,355	43,855
2031	40,500	3,623	44,123
2032	40,000	1,800	41,800
Totals	<u>\$ 583,000</u>	<u>\$ 351,522</u>	<u>\$ 934,522</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2010 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>
2011	8,500	18,923	27,423
2012	9,500	18,540	28,040
2013	9,500	18,113	27,613
2014	10,000	17,685	27,685
2015	10,500	17,235	27,735
2016	11,000	16,763	27,763
2017	11,500	16,268	27,768
2018	12,000	15,750	27,750
2019	12,500	15,210	27,710
2020	13,000	14,648	27,648
2021	13,500	14,063	27,563
2022	14,500	13,455	27,955
2023	15,000	12,803	27,803
2024	15,500	12,128	27,628
2025	16,500	11,430	27,930
2026	17,000	10,688	27,688
2027	18,000	9,923	27,923
2028	18,500	9,113	27,613
2029	19,500	8,280	27,780
2030	20,500	7,403	27,903
2031	21,000	6,480	27,480
2032	23,000	5,535	28,535
2033	23,500	4,500	28,000
2034	24,500	3,443	27,943
2035	25,500	2,340	27,840
2036	26,500	1,193	27,693
Totals	<u>\$ 420,500</u>	<u>\$ 301,912</u>	<u>\$ 722,412</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2010 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>
2011	21,000	68,350	89,350
2012	21,000	67,300	88,300
2013	23,000	66,250	89,250
2014	24,000	65,100	89,100
2015	25,000	63,900	88,900
2016	26,000	62,650	88,650
2017	28,000	61,350	89,350
2018	29,000	59,950	88,950
2019	30,000	58,500	88,500
2020	32,000	57,000	89,000
2021	33,000	55,400	88,400
2022	35,000	53,750	88,750
2023	37,000	52,000	89,000
2024	39,000	50,150	89,150
2025	41,000	48,200	89,200
2026	43,000	46,150	89,150
2027	45,000	44,000	89,000
2028	47,000	41,750	88,750
2029	50,000	39,400	89,400
2030	52,000	36,900	88,900
2031	55,000	34,300	89,300
2032	57,000	31,550	88,550
2033	60,000	28,700	88,700
2034	63,000	25,700	88,700
2035	66,000	22,550	88,550
2036	70,000	19,250	89,250
2037	73,000	15,750	88,750
2038	77,000	12,100	89,100
2039	81,000	8,250	89,250
2040	84,000	4,200	88,200
Totals	\$ 1,367,000	\$ 1,300,400	\$ 2,667,400

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2009 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>	
2011	144,000	67,411	211,411
2012	140,000	62,777	202,777
2013	148,000	57,824	205,824
2014	154,000	52,554	206,554
2015	160,000	46,302	206,302
2016	176,000	39,806	215,806
2017	60,000	32,661	92,661
2018	64,000	30,225	94,225
2019	64,000	27,626	91,626
2020	68,000	25,028	93,028
2021	70,000	22,267	92,267
2022	74,000	19,334	93,334
2023	60,000	16,234	76,234
2024	64,000	13,498	77,498
2025	66,000	10,579	76,579
2026	70,000	7,570	77,570
2027	30,000	4,378	34,378
2028	32,000	3,010	35,010
2029	34,000	1,550	35,550
Totals	<u>\$ 1,678,000</u>	<u>\$ 540,634</u>	<u>\$ 2,218,634</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2010 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>	
2011	8,500	44,551	53,051
2012	9,000	29,295	38,295
2013	9,500	28,868	38,368
2014	10,000	28,418	38,418
2015	10,500	27,945	38,445
2016	11,000	27,450	38,450
2017	11,500	26,933	38,433
2018	12,000	26,393	38,393
2019	12,500	25,830	38,330
2020	13,000	25,245	38,245
2021	13,500	24,638	38,138
2022	14,000	24,008	38,008
2023	15,000	23,333	38,333
2024	15,500	22,635	38,135
2025	16,000	21,915	37,915
2026	17,000	21,150	38,150
2027	17,500	20,363	37,863
2028	18,500	19,530	38,030
2029	19,500	18,653	38,153
2030	20,000	17,753	37,753
2031	21,000	16,808	37,808
2032	22,000	15,818	37,818
2033	23,000	14,783	37,783
2034	24,000	13,703	37,703
2035	25,000	12,578	37,578
2036	26,000	11,408	37,408
2037	27,500	10,170	37,670
2038	28,500	8,888	37,388
2039	30,000	7,538	37,538

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 4. BONDED DEBT - CONTINUED

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>\$ 668,500</u>	<u>\$ 632,118</u>	<u>\$ 1,300,618</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2010 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>
2011	5,500	28,114	33,614
2012	5,500	18,495	23,995
2013	6,000	18,225	24,225
2014	6,500	17,933	24,433
2015	6,500	17,640	24,140
2016	7,000	17,325	24,325
2017	7,000	17,010	24,010
2018	7,500	16,673	24,173
2019	8,000	16,313	24,313
2020	8,000	15,953	23,953
2021	8,500	15,570	24,070
2022	9,000	15,165	24,165
2023	9,500	14,738	24,238
2024	10,000	14,288	24,288
2025	10,000	13,838	23,838
2026	10,500	13,365	23,865
2027	11,000	12,870	23,870
2028	11,500	12,353	23,853
2029	12,000	11,813	23,813
2030	12,500	11,250	23,750
2031	13,000	10,665	23,665
2032	14,000	10,035	24,035
2033	14,500	9,383	23,883
2034	15,000	8,708	23,708
2035	16,000	7,988	23,988
2035	16,500	7,245	23,745
2037	17,000	6,480	23,480
2038	18,000	5,670	23,670
2039	19,000	4,815	23,815

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 4. BONDED DEBT - CONTINUED

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>\$ 422,000</u>	<u>\$ 399,950</u>	<u>\$ 821,950</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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, 2009 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>
2011	900	4,840	5,740
2012	1,000	3,182	4,182
2013	1,000	3,137	4,137
2014	1,100	3,087	4,187
2015	1,100	3,038	4,138
2016	1,200	2,984	4,184
2017	1,200	2,930	4,130
2018	1,300	2,871	4,171
2019	1,300	2,813	4,113
2020	1,400	2,750	4,150
2021	1,500	2,682	4,182
2022	1,500	2,615	4,115
2023	1,600	2,543	4,143
2024	1,700	2,466	4,166
2025	1,700	2,390	4,090
2026	1,800	2,309	4,109
2027	1,900	2,223	4,123
2028	2,000	2,133	4,133
2029	2,100	2,039	4,139
2030	2,200	1,940	4,140
2031	2,300	1,836	4,136
2032	2,400	1,728	4,128
2033	2,500	1,616	4,116
2034	2,600	1,499	4,099
2035	2,700	1,377	4,077
2035	2,800	1,251	4,051
2037	3,000	1,116	4,116
2038	3,100	977	4,077
2039	3,200	833	4,033

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 4. BONDED DEBT - CONTINUED

2040	3,400	680	4,080
2041	3,500	522	4,022
2042	3,700	356	4,056
2043	3,900	180	4,080
2044	4,000	0	4,000
Totals	<u>\$ 72,600</u>	<u>\$ 68,943</u>	<u>\$ 141,543</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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 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, 2010 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>
2011	3,800	22,413	26,213
2012	4,000	14,715	18,715
2013	4,200	14,535	18,735
2014	4,400	14,346	18,746
2015	4,600	14,148	18,748
2016	4,800	13,941	18,741
2017	5,000	13,725	18,725
2018	5,200	13,500	18,700
2019	5,500	13,266	18,766
2020	5,700	13,019	18,719
2021	6,000	12,762	18,762
2022	6,200	12,492	18,692
2023	6,500	12,213	18,713
2024	6,800	11,921	18,721
2025	7,100	11,615	18,715
2026	7,400	11,295	18,695
2027	7,800	10,962	18,762
2028	8,100	10,611	18,711
2029	8,500	10,247	18,747
2030	8,900	9,864	18,764
2031	9,300	9,464	18,764
2032	9,700	9,045	18,745
2033	10,100	8,609	18,709
2034	10,600	8,154	18,754
2035	11,100	7,677	18,777
2035	11,600	7,178	18,778
2037	12,100	6,656	18,756
2038	12,600	6,111	18,711
2039	13,200	5,544	18,744

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 4. BONDED DEBT - CONTINUED

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>\$ 330,800</u>	<u>\$ 350,644</u>	<u>\$ 681,444</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

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 \$7,473,874. During the year there was a no new bond issues. Revenue bonds retired during the year totaled \$194,600.

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
2011	207,200	247,475	454,675
2012	206,000	239,864	445,864
2013	217,700	231,792	449,492
2014	227,500	223,221	450,721
2015	236,700	213,518	450,218
Thereafter	4,447,300	2,653,890	7,101,190
Totals	\$ 5,542,400	\$ 3,809,760	\$ 9,352,160

The following is a summary of debt transactions of the City for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Revenue Bonds	\$ 5,737,000	\$ 0	\$ 194,600	\$ 5,542,400	\$ 207,200
Notes Payable	510,562	134,338	497,000	147,900	0
	<u>\$ 6,247,562</u>	<u>\$ 134,338</u>	<u>\$ 691,600</u>	<u>\$ 5,690,300</u>	<u>\$ 207,200</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 5. ALLOWANCE FOR DOUBTFUL AMOUNTS

At 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, 2010 and 2009, the allowance account was 28% and 27% of the past due amounts respectively.

	<u>Total Billings</u>	<u>Bad Debts</u>	<u>Percentage of Bad Debts to Billings</u>
June 30, 2010	\$ 2,308,953	\$ 17,318	0.75%
June 30, 2009	\$ 2,225,467	\$ 16,691	0.75%

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

NOTE 6. SUMMARY OF CHANGES IN CAPITAL ASSETS

Assets	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Fire Equipment	\$ 448,027	\$ 0	\$ 0	\$ 448,027
Buildings - General	255,553	6,450	0	262,003
Land - General	83,086	0	0	83,086
Landscaping - General	12,643	0	0	12,643
Office Furniture & Equipment	36,678	0	0	36,678
Trucks & Equipment - General	47,130	0	0	47,130
Police Equipment	378,736	132,242	0	510,978
Street Equipment	483,982	0	0	483,982
Total	<u>\$ 1,745,834</u>	<u>\$ 138,692</u>	<u>\$ 0</u>	<u>\$ 1,884,526</u>

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Fire Equipment	\$ 263,382	\$ 27,070	\$ 0	\$ 290,452
Buildings - General	161,543	8,019	0	169,562
Landscaping - General	12,212	431	0	12,643
Office Furniture & Equipment	33,727	927	0	34,654
Trucks & Equipment - General	33,137	3,313	0	36,450
Police Equipment	297,047	38,048	0	335,096
Street Equipment	84,641	34,576	0	119,216
Total	<u>\$ 885,688</u>	<u>\$ 112,385</u>	<u>\$ 0</u>	<u>\$ 998,074</u>

Net Capital Assets, Governmental Activities	<u>\$ 886,453</u>
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CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 6. SUMMARY OF CHANGES IN CAPITAL ASSETS - CONTINUED

Business-Type Activities:				
Assets	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Buildings	\$ 106,670	\$ 0	\$ 0	\$ 106,670
Office Equipment	30,742	0	0	30,742
Land	221,652	0	0	221,652
Trucks & Equipment	78,347	0	0	78,347
Sewer Utility Plant	2,420,417	0	0	2,420,417
Water House & Building	219,232	0	0	219,232
Water Trucks	391,570	0	0	391,570
Water Utility Plant	22,269,390	0	0	22,269,390
Construction in Progress	11,615,016	2,325,427	0	13,940,443
Total	<u>\$ 37,353,036</u>	<u>\$ 2,325,427</u>	<u>\$ 0</u>	<u>\$ 39,678,463</u>
Accumulated Depreciation	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Buildings	\$ 14,665	\$ 2,667	\$ 0	\$ 17,332
Office Equipment	27,537	607	0	28,144
Land	12,316	0	0	12,316
Trucks & Equipment	62,875	6,335	0	69,210
Sewer Utility Plant	980,001	60,510	0	1,040,511
Water House & Building	39,509	2,857	0	42,365
Water Trucks	357,999	11,844	0	369,844
Water Utility Plant	6,777,589	547,024	0	7,324,614
Total	<u>\$ 8,272,491</u>	<u>\$ 631,845</u>	<u>\$ 0</u>	<u>\$ 8,904,336</u>
Net Capital Assets, Business-Type Activities				<u>\$ 30,774,127</u>
Total Net Capital Assets				<u>\$ 31,660,579</u>

NOTE 7. RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications have been made to the June 30, 2009 information to make them comparable to June 30, 2010.

NOTE 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The City has a number of financial instruments, none of which are held for trading purposes. The City estimates that the fair value of all financial instruments at June 30, 2010 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the City using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the City could realized in a current market exchange.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 9. ECONOMIC DEPENDENCY / CREDIT RISK

Approximately 35% 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 10. RESTRICTED ASSETS

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

NOTE 11. INTERGOVERNMENTAL REVENUES AND RECEIVABLES

Analysis of intergovernmental revenues and collectibles is as follows:

	<u>Receivables</u>	<u>Revenues</u>
General Fund		
Police Training Incentives (KLEFPF)	\$ 2,400	\$ 28,807
Base Court Revenues	0	13,317
Other- Grants	0	125,316
Total	<u>\$ 2,400</u>	<u>\$ 167,440</u>
Special Revenue Fund		
LGEA	\$ 0	\$ 9,970
Municipal Road Aid	0	42,474
	<u>\$ 0</u>	<u>\$ 52,444</u>

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

NOTE 12.

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
	\$	\$
General	415,710	0
Proprietary	0	415,710
Total	<u>\$ 415,710</u>	<u>\$ 415,710</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2010

NOTE 13. RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2010, the City was sufficiently insured.

NOTE 14. RESERVATION OF FUND BALANCE

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

NOTE 15. CONTINGENCIES

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

NOTE 16. SUBSEQUENT EVENTS

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

NOTE 17. DEPRECIATION FUND - PROPRIETARY FUNDS

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

CITY OF ALBANY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
6/30/10

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Rural Development		
Community Facilities Grant	10.766	\$ 99,145
Emergency Community Water Grant	10.763	500,000
		<u>\$ 599,145</u>

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

CITY OF ALBANY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS & QUESTIONED COSTS
June 30, 2010

The audit report for the year ended June 30, 2009, contained no audit findings

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

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

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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**

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, 2010, which collectively comprise the City of Albany, Kentucky's basic financial statements and have issued my report thereon dated October 15, 2010. 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 of Albany's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on 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.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiencies described in the accompanying schedule of findings as item 2010-01 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albany'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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the City'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, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sammy K. Lee, P.S.C.

Lexington, Kentucky
October 15, 2010

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

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

I have audited the compliance of the City of Albany, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Albany, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulation, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Albany, Kentucky's management. My responsibility is to express an opinion on the City of Albany, Kentucky's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program, occurred. An audit includes examining on a test basis, evidence about the City of Albany, Kentucky's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Albany, Kentucky's compliance with those requirements.

In my opinion, the City of Albany, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. The results of my auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control over Compliance

The management of the City of Albany, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City of Albany, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express such an opinion on the effectiveness of the City of Albany, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

City of Albany's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit City of Albany's responses and, accordingly, I express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, other within the entity, 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
October 15, 2010

CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

Section I – Summary of Auditor's Results

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness identified? ☒ yes ☐ no

Significant deficiencies identified not considered
to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to the financial statements
noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness identified? ☐ yes ☒ no

Significant deficiencies identified not considered
to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with OMB Circular A-133,
Section .510(a)?

☐ yes ☒ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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10.763	Emergency Community Water Grant
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Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II - Financial Statement Findings Finding 2010-01 Internal Control

Criteria:

A key component of internal control is to ensure that assigned duties are separated such that no one employee or group of employees is in a position both to commit and or conceal errors or irregularities in the normal course of performing their assigned duties. Duties to be segregated are, but not limited to the following:

- Authorization of transactions
- Custody of assets
- Recording or reporting of transactions

CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

Adequate segregation of duties reduces the likelihood that errors, either intentional or unintentional, will remain undetected. This is carried out by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of segregation of duties which enabled one individual access to authorize transactions, custody of assets, recording and reporting of the Authority's transactions and that individual did not have the knowledge or ability to prepare GAAP financial statements.

Cause:

Due to the small number of individuals responsible for the accounting system, 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 GAAP.

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.

Recommendation:

Specific recommendations are:

1. Require more board members or other employees, to provide compensating controls, and contract with a fee accountant to provide outside accounting services.

Management Response:

Management concurs with recommendations and will hire a fee accountant to assist in the preparation of financial statements. In addition, the City will discuss existing internal control policies. The limited number of employees prevents the City's ability to fully segregate custodial from recordkeeping duties. However, the City will strive to implement new policies and procedures to correct the deficiency as noted in the finding.

Section III - Federal Award Findings and Questioned Costs

None

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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

October 15, 2010

Corrective Action Plan
October 15, 2010

Sammy K. Lee, P.S.C.
P.O. Box 958
Berea, Kentucky

The City of Albany respectfully submits the following corrective action plan for the year ended June 30, 2010.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2010-1

The limited number of employees within our administration office prevents us from fully segregating our custodial duties from recordkeeping duties. In addition, we are hiring a fee accountant to assist us in the preparation of our financial statements. The City will strive to implement compensating controls to correct this issue.

Sincerely,

John N. Smith,
Mayor

City of Albany

P.O. Box 250
Burkesville, Kentucky 42602

Corrective Action Plan
October 15, 2010

Sammy K. Lee, P.S.C.
P.O. Box 958
Berea, KY 40403

City of Albany respectfully submits the following corrective action plan for the year ended June 30, 2010.

The findings from the June 30, 2010 schedule of findings and questioned costs are discussed below.

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2010-1

The limited number of employees within our administration office prevents us from fully segregating our custodial duties from recordkeeping duties. In addition, we are hiring a fee accountant to assist us in the preparation of our financial statements. The City will strive to implement compensating controls to correct this issue.

Sincerely,

City of Albany