



**Presentation Of Results Of Annual Audit And An  
Analysis Of Your Financial Operations  
City of Liberty, Missouri**

*For The Year Ended December 31, 2010*



**Business  
Performance  
Analysis**



Honorable Mayor and City Council  
and Members of Management  
City of Liberty, Missouri

We are pleased to have the opportunity to meet with you to discuss the results of our audit engagement of City of Liberty, Missouri (the City) for the year ended December 31, 2010. The accompanying report presents information regarding the scope of our audit and other matters, which summarizes the results of our audit engagement.

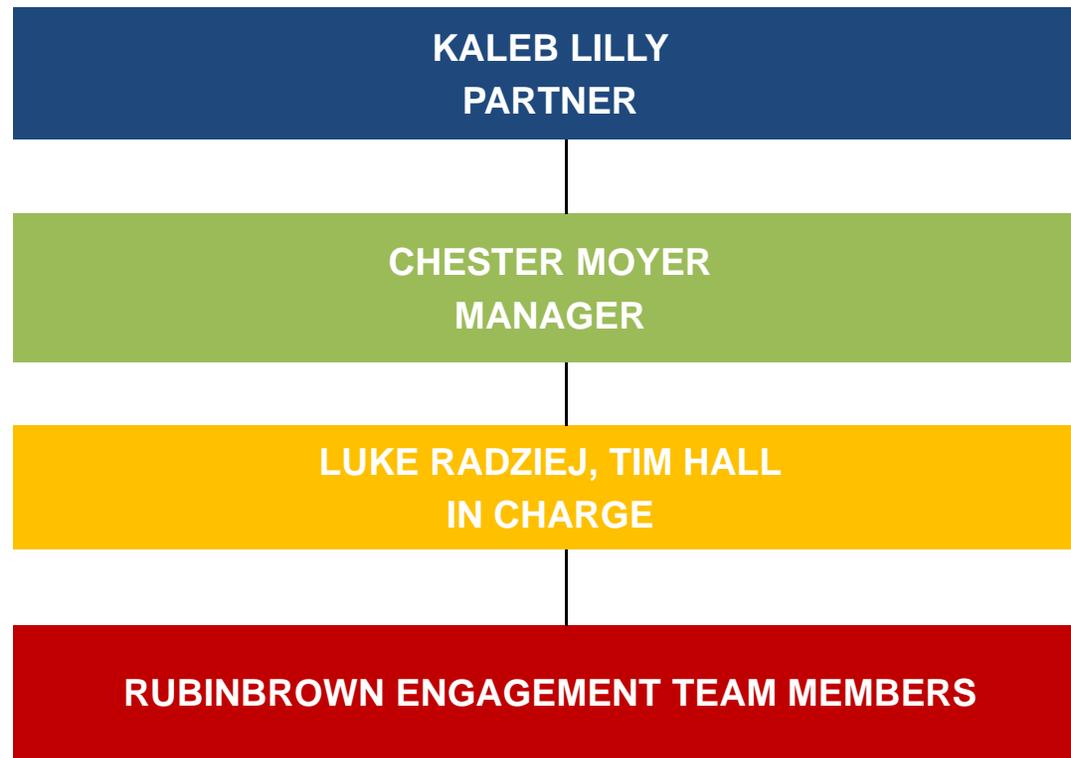
We thank you for the opportunity to be of service to the City. We have received excellent cooperation and assistance from management and staff, both with respect to access to records, supporting documentation and responses to inquiries. No limitations were imposed on our audit procedures or the extent of our audit.

Sincerely,

*RubinBrown LLP*

June 27, 2011

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# Auditor Communications

AICPA Statement on Auditing Standards No. 114 requires the auditor to ensure that those charged with corporate governance receive additional information regarding the scope and results of the audit that may assist the governing body in overseeing the financial reporting and disclosure process for which management is responsible. The following section describes matters which are required to be reported to you.

AREA	COMMENTS
<p><b>Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards</b></p> <p>Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with our assistance are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and that the City complied in all material respects with the applicable compliance requirements of its major federal programs. Our audit of the financial statements does not relieve you or management of responsibility for the accuracy of the financial statements.</p>	<p>We have audited the City's financial statements and the City's compliance with laws and regulations applicable to each of its major federal programs for the year ended December 31, 2010. Our audits were performed in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. We have issued an unqualified opinion on the City's financial statements for the year ended December 31, 2010.</p>

# Auditor Communications (Continued)

AREA	COMMENTS
<p><b>Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards (Continued)</b></p> <p>Professional standards also require that we obtain a significant understanding of the City of Liberty, Missouri's (the City) internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>	<p>We expect to issue:</p> <ul style="list-style-type: none"> <li> A report on compliance and on internal control over financial reporting based on an audit of the financial statements in accordance with <i>Government Auditing Standards</i>.</li> <li> An unqualified opinion on compliance and a report on internal controls over federal financial assistance in accordance with OMB Circular A-133.</li> </ul>

# Auditor Communications (Continued)

AREA	COMMENTS
<p><b>Other Information In Documents Containing Audited Financial Statements</b></p>	<p>Our audit has been conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City’s basic financial statements. The introductory section, the combining and individual fund financial statements and schedules and the statistical section, as listed in the table of contents in the Comprehensive Annual Financial Report (CAFR), are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we will express no opinion on them.</p>

# Auditor Communications (Continued)

AREA	COMMENTS
<p><b>Other Information In Documents Containing Audited Financial Statements (Continued)</b></p>	<p>✦ The Management’s Discussion and Analysis, the Schedules of Funding Progress, and the Budgetary Comparison Information as listed in the table of contents in the CAFR are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.</p>
<p><b>Planned Scope And Timing Of The Audit</b></p>	<p>✦ We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated March 1, 2011, regarding the nature, timing and extent of our audit procedures.</p>

# Auditor Communications (Continued)

AREA	COMMENTS
<p><b>Qualitative Aspects Of Accounting Practices</b></p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about appropriateness of accounting policies and their application.</p>	<ul style="list-style-type: none"> <li>✦ Significant accounting policies are described in Note 1.</li> <li>✦ No new accounting policies were adopted and the application of existing policies was not changed.</li> <li>✦ We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus.</li> <li>✦ No significant transactions have been recognized in a different period than when the transactions occurred.</li> </ul>
<p><b>Management Judgments And Accounting Estimates</b></p> <p>The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.</p> <p>We evaluated the key factors and assumptions used to develop the estimates noted to the right in determining that these amounts are reasonable in relation to the financial statements taken as a whole.</p>	<ul style="list-style-type: none"> <li>✦ Allowance for uncollectible accounts receivable - Water/Sewer/Sanitation.</li> <li>✦ Depreciation of capital assets.</li> <li>✦ Estimated property taxes collectible.</li> <li>✦ Actuarial assumptions in the calculation of annual pension and other post-employment benefit costs.</li> <li>✦ Valuation of contributed capital assets.</li> </ul>

# Auditor Communications (Continued)

AREA	COMMENTS
<b>Financial Statement Disclosures</b>	<p>The disclosures are neutral, consistent and clear. Certain disclosures are particularly sensitive because of their significance to the financial statements users. The most sensitive disclosures affecting the financial statements are:</p> <ul style="list-style-type: none"> <li>➤ Disclosure 2 - Deposits and Investments</li> <li>➤ Disclosure 4 - Long-Term Debt</li> <li>➤ Disclosure 6 - Defined Benefit Pension Plan</li> <li>➤ Disclosure 10 - Other Post Employment Benefits</li> </ul>
<b>Difficulties Encountered In Performing The Audit</b>	<p>There were no difficulties encountered in dealing with management related to performance of the audit.</p>
<b>Corrected And Uncorrected Misstatements</b>	<p>Management has corrected all audit adjustments considered to be material, either individually or in the aggregate. Refer to the attached schedule labeled Adjusting Journal Entries.</p> <p>In addition, we accumulated uncorrected misstatements (including the current year effect of prior periods' uncorrected misstatements) that management has determined are not material, both individually and in the aggregate, to the fund financial statements. Refer to the attached schedule labeled Passed Journal Entries.</p>



## Auditor Communications *(Continued)*

AREA	COMMENTS
Disagreements With Management	None
Management Representations	We have requested certain representations from management that are included in the management representation letter dated June 27, 2011. A copy of the signed letter is attached.
Management Consultations With Other Independent Accountants	None
Other Audit Findings Or Issues	There were no matters of significant discussion that affected our retention as the City's auditors.

# Strengths And Opportunities

## ◀▶ Strengths and Accomplishments

- ◀ The Finance Department has successfully worked through some challenging circumstances by pulling together as a team to support one another and keep the City's financial and accounting functions running effectively.
- ◀ The City is an attractive community for families, as noted by Family Circle Magazine in the August 2011 issue. "Giving Spirits" was cited as a reason for the City being rated so highly. This "Giving Spirit" can be seen in the City's own Finance Department.

## ◀▶ Opportunities

- ◀ The City should consider revising the process of analyzing, and potentially recording, allowances for doubtful accounts for water, sewer and property tax receivables.
- ◀ The City should research GASB 54 and consider the effects of properly implementing this standard on its current use of special revenue funds as well as fund balance classifications. In addition, the City will need to consider how this standard might affect City policies and procedures in relation to the budgeting process. See page 22 for further information.

## Strengths And Opportunities (Continued)

### ❖ Opportunities (Continued)

- ❖ Consideration should be given to spot audits of gas card usage.
- ❖ The City should consider implementing a documented annual review of the vendor master file.
- ❖ The following opportunities are also included in the Single Audit and they are categorized as “significant deficiencies.” Refer to your copy of the Single Audit report for further details and the required reporting language:
  - The City should consider implementing additional controls related to compliance requirements for reviewing subcontractor certified payrolls on projects that receive federal funding.
  - The City should consider formalizing their closing process by putting standard procedures and controls in place in the form of a checklist that addresses year end close of the books and records, required disclosures and other complex accounting matters and their treatment in the financial statements.



# Statistical Comparison

## Financial Ratio Study For Municipalities

### KANSAS CITY METROPOLITAN AREA

GOVERNMENT-WIDE RATIOS	Quartile					Average	City of Liberty
	First Quartile	Second Quartile	Median	Third Quartile	Fourth Quartile		
<b><u>Government-Wide General Ratios</u></b>							
Change in net assets as a percent of net assets (%)	10.1%		1.8%	-0.8%	✓	2.3%	-11.47%
Revenue coverage ratio (times)	1.19		1.07	0.94	✓	1.08	0.88
Unrestricted net assets as a percent of total current year revenue (%)	40.9%		22.3%	-30.8%	✓	23.8%	-51.43%
Accumulated depreciation as a percent of depreciable capital assets (%)	30.1%	✓	34.4%	42.0%		35.5%	33.46%
<b><u>Government-Wide Liquidity Ratio</u></b>							
Liquidity ratio (times)	2.44		1.17	✓	0.73	1.17	1.00
<b><u>Government-Wide Debt Ratios</u></b>							
Debt to assets leverage ratio (times)	0.13		0.30	✓	0.44	0.20	0.40
Total debt per capita (\$ per citizen)	\$ 713.81	✓	\$ 1,405.25		\$ 1,818.40	\$ 1,182.82	\$ 982.16
<b><u>Government-Wide Revenue Ratios</u></b>							
Tax revenues per capita (\$ per citizen)	\$ 531.10		\$ 600.95	✓	\$ 737.60	\$ 659.90	\$ 694.54
Total grants, contributions and intergovernmental revenues as a percent of total revenues (%)	3.1%		8.0%	✓	17.3%	17.5%	8.37%

✓ = Represents City's Quartile Ranking



# Statistical Comparison (Continued)

## Financial Ratio Study For Municipalities

### KANSAS CITY METROPOLITAN AREA

GOVERNMENT-WIDE RATIOS Cont.	Quartile					Average	City of Liberty
	First Quartile	Second Quartile	Median	Third Quartile	Fourth Quartile		
<b><u>Government-Wide Expense Ratios</u></b>							
Total expenses per capita (\$ per citizen)	\$ 818.11		\$ 949.12	✓	\$ 1,331.40	\$ 998.58	\$ 1,214.22
Total general government (administration) expenses per capita (\$ per citizen)	\$ 95.20	✓	\$ 156.19		\$ 200.15	\$ 166.06	\$ 140.59
Total public safety expenses per capita (\$ per citizen)	\$ 272.04		\$ 293.92	✓	\$ 361.73	\$ 331.08	\$ 300.38
Total interest expenses per capita (\$ per citizen)	\$ 28.12		\$ 58.47	✓	\$ 86.76	\$ 51.75	\$ 60.23
<b><u>GOVERNMENTAL FUND RATIOS</u></b>							
<b><u>Governmental Funds Expenditure Ratios</u></b>							
Debt service expenditures as a percent of total revenues (%)	11.0%		15.8%	✓	26.1%	19.6%	22.06%
Capital outlay expenditures as a percent of total expenditures (%)	33.2%		20.3%		10.9%	✓	27.2%
<b><u>GENERAL FUND RATIOS</u></b>							
<b><u>General Fund Financial Position Ratio</u></b>							
Unreserved fund balance as a percent of total revenues (%)	44.8%		35.7%		22.7%	✓	34.8%
<b><u>General Fund Revenue Ratios</u></b>							
Intergovernmental revenue as a percent of total revenue (%)	0.5%		1.7%	✓	9.4%	5.0%	2.37%
Transfers in as a percent of total revenues and transfers in (%)	0.2%		2.0%		5.5%	✓	4.5%

✓ = Represents City's Quartile Ranking

# Description Of Ratios

RATIO	FORMULA	INTERPRETATION
<b><u>Government-Wide General Ratios</u></b>		
Change in net assets as a percent of net assets	$\frac{\text{Increase (decrease) in governmental activities' net assets}}{\text{Governmental activities' net assets beginning of year}}$	The ratio measures the change in the municipality's financial condition for the year. A positive ratio indicates that the financial condition has improved; a negative ratio indicates a deteriorating financial condition.
Revenue coverage ratio	$\frac{\text{Governmental activities' current year revenue}^*}{\text{Governmental activities' current year expense}}$ <p><small>*Current revenue includes both program and general revenue but excludes gains, losses, contributions, special and extraordinary gains or losses and transfers.</small></p>	The ratio measures interperiod equity - whether current year revenue covers the cost, including depreciation, of providing current year services. A ratio greater than 1.0 indicates positive interperiod equity; current year taxpayers are providing adequately for current year services. When the ratio falls below 1.0, either prior year revenues were used to fund a portion of current year services or future citizens are being burdened with some of the cost for providing services consumed currently. A higher value for the ratio usually is considered favorable. However, an extremely high ratio may indicate that the municipality is not providing services commensurate with the current revenues being generated from its tax base.
Unrestricted net assets as a percent of current year revenue	$\frac{\text{Governmental activities' unrestricted net assets}}{\text{Governmental activities' current year revenue}^*}$ <p><small>*Current revenue includes both program and general revenue but excludes gains, losses, contributions, special and extraordinary gains or losses and transfers.</small></p>	The ratio measures the ability of the municipality to operate if its normal revenue stream is temporarily interrupted or significantly impaired. The ratio is the measure of the cushion that the municipality has for bad years. Municipalities may set a target minimum value for this ratio. A high ratio usually is considered favorable. However, an extremely high ratio may indicate that the municipality is not providing appropriate current services for its constituents based on its recurring revenue stream.
Accumulated depreciation as a percent of depreciable capital assets	$\frac{\text{Governmental activities' accumulated depreciation, end of year}}{\text{Governmental activities' depreciable capital assets, end of year}}$	The ratio is a measure of the relative age of depreciable capital assets compared to the assets' economic lives. Lower ratios are considered to be more favorable; the municipality will not face significant replacement cost in the near future.

# Description Of Ratios (Continued)

RATIO	FORMULA	INTERPRETATION
<b><u>Government-Wide Liquidity Ratio</u></b>		
Liquidity ratio	$\frac{\text{Governmental activities' liquid assets}^*}{\text{Governmental activities' current liabilities}}$ <p>*Cash and short-term investments, excluding any restricted assets</p>	The ratio measures the municipality's ability to meet current obligations from existing cash and short-term investment balances. A higher ratio is considered favorable, indicating that the municipality will be able to pay current liabilities as they become due.
<b><u>Government-Wide Debt Ratios</u></b>		
Debt to assets leverage ratio	$\frac{\text{Government activities' total debt}^*}{\text{Governmental activities' total assets}}$ <p>*Total long-term liabilities, excluding operating liabilities such as accrued compensated absences, claims and judgments payable, and pension obligations. Short-term operating debt is also not included</p>	The ratio is a measure of the degree to which the municipality's total assets have been funded with debt. A lower ratio is considered favorable, indicating that the government does not have significant creditor claims against its assets and has less risk of default on debt.
Total debt per capita	$\frac{\text{Governmental activities' total debt}^*}{\text{Population}}$ <p>*Total long-term liabilities, excluding operating liabilities such as accrued compensated absences, claims and judgments payable, and pension obligations</p>	The ratio is a measure of the debt burden to citizens. A lower ratio is considered favorable, indicating that the citizens are less heavily burdened. The municipality has the ability to issue future debt at a lower cost.
<b><u>Government-Wide Revenue Ratios</u></b>		
Tax revenue per capita	$\frac{\text{Governmental activities' tax revenue}}{\text{Population}}$	The ratio is a measure of the tax burden to citizens. A lower ratio is considered favorable, indicating that current citizens are paying less tax. Therefore the municipality has a greater ability to increase taxes to meet future needs.

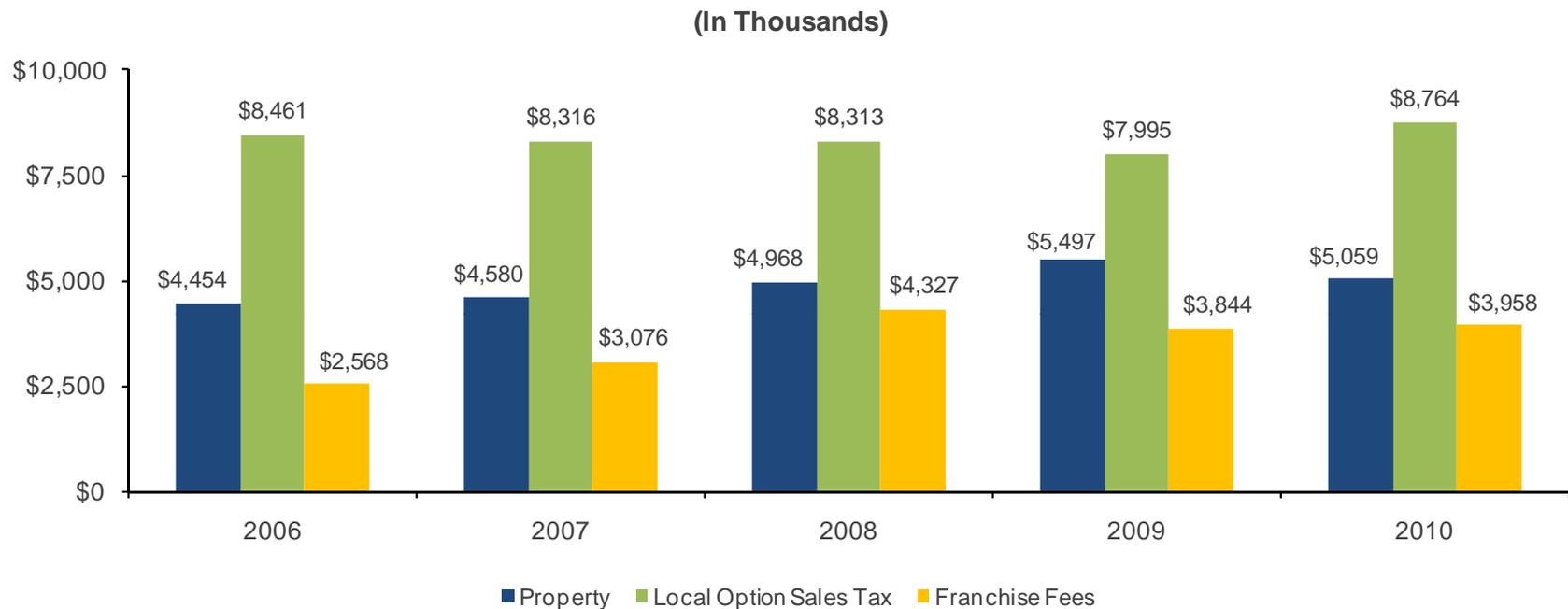
## Description Of Ratios (Continued)

RATIO	FORMULA	INTERPRETATION
Total grants, contributions and other intergovernmental revenue as a percent of total revenue	$\frac{\text{(Governmental activities' total operating grants and contributions + total capital grants and contributions + other intergovernmental revenue)}}{\text{Governmental activities' total revenue*}}$ <p>*Current revenue includes both program and general revenue but excludes gains, losses, contributions, special and extraordinary gains or losses and transfers</p>	The ratio measures the municipality's reliance on grants, contributions and other intergovernmental revenue. A lower ratio is considered favorable, indicating that the municipality is less reliant on external sources that are beyond its control.
<b><u>Government-Wide Expense Ratios</u></b>		
Total expense per capita	$\frac{\text{Government-wide total expense}}{\text{Population}}$	Expense ratios measure the current-period cost of providing services to citizens, or current-period financing cost. Functional expense categories, including depreciation, measure the cost of using capital assets to provide current-year services. Low ratios are depicted as favorable. However, the amount of expense incurred is not necessarily commensurate with the quality, efficiency or effectiveness of the service provided.
Total general government (administration) expense per capita	$\frac{\text{Government-wide general government (administration) expense}}{\text{Population}}$	See previous comments.
Total public safety expense per capita	$\frac{\text{Government-wide public safety expense}}{\text{Population}}$	See previous comments.
Total interest expense per capita	$\frac{\text{Government-wide interest expense}}{\text{Population}}$	See comments above. Lower interest expense is considered favorable. The municipality has incurred lower debt and therefore less financial risk.

# Description Of Ratios (Continued)

RATIO	FORMULA	INTERPRETATION
<b><u>Government Fund Ratios</u></b>		
Total debt service expenditures as a percent of total revenues	$\frac{\text{Governmental fund debt service expenditures}}{\text{Governmental fund total revenue}}$	This ratio measures the amount of current revenue that is devoted to meeting the year's debt service requirements. Significant debt service requirements potentially lower the amount that can be used for providing current services. A low ratio is considered favorable.
Capital outlay expenditures as a percent of total expenditures	$\frac{\text{Governmental fund capital outlay expenditures}}{\text{Governmental fund total expenditures}}$	The ratio measures whether the municipality is adequately providing for capital asset additions and improvements. A high ratio is considered favorable, indicating that the municipality is providing adequately for its capital asset needs.
<b><u>General Fund Ratios</u></b>		
Unreserved fund balance as a percent of total revenues	$\frac{\text{General Fund unreserved fund balance}^*}{\text{General Fund revenues}}$ <p><small>*Includes both designated and undesignated unreserved fund balance.</small></p>	The ratio measures the ability of the General Fund to continue operations if its revenue is temporarily interrupted or declines. This ratio is a measure of the General Fund operating cushion. Municipalities may set a target for this ratio. A higher ratio is usually considered favorable. However, an extremely high ratio may indicate that the municipality is not providing the level of services commensurate with its revenue stream.
Intergovernmental revenue as a percent of total revenue	$\frac{\text{General Fund intergovernmental revenue}}{\text{General Fund total revenue}}$	The ratio measures the General Fund's reliance on revenues from external sources to finance current operations. A low ratio is considered favorable, indicating that the General Fund is not overly reliant on revenue sources that are beyond its control.
Transfers in as a percent of total revenues and transfers in	$\frac{\text{General Fund transfers in}}{\text{General Fund total revenues and transfers in}}$	The ratio measures the reliance of the General Fund on transfers from other funds. To the extent the transfers are from enterprise funds, the users enterprise services may be subsidizing General Fund operations. A low ratio is considered favorable, indicating that the General Fund is not dependent on transfers.

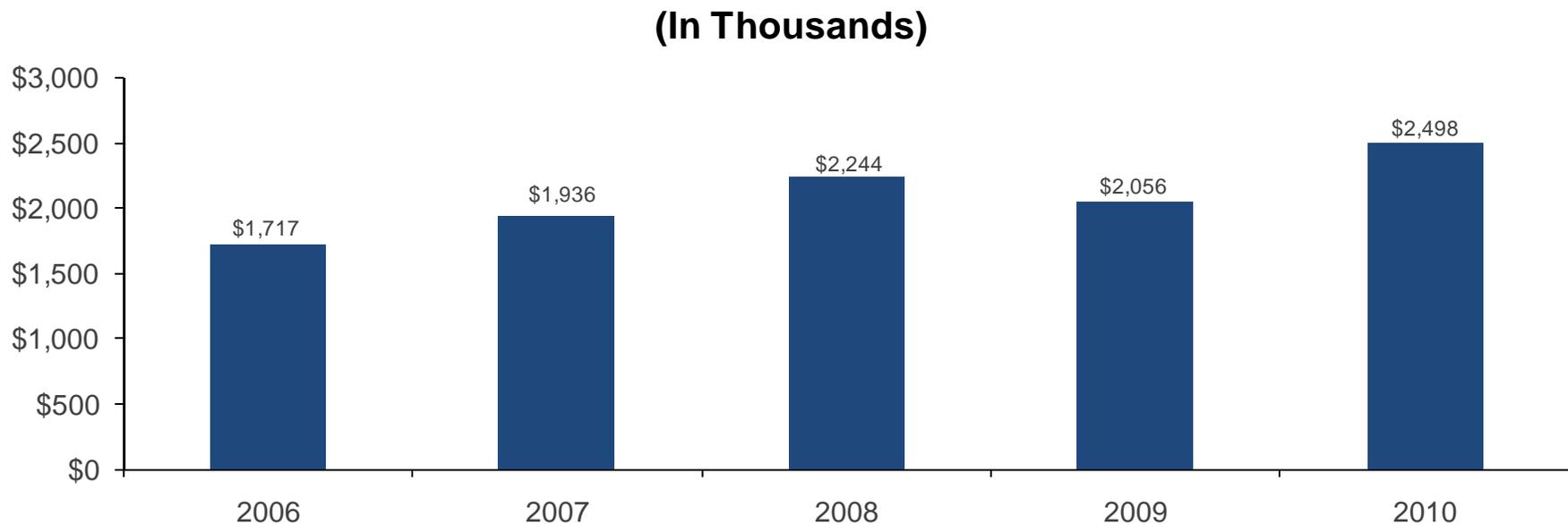
## Selected Tax Revenues – Governmental Funds (Full Accrual)



### OBSERVATION

Tax revenue distribution remains relatively consistent from year to year. The increase in 2008 franchise tax relates to the recognition of previously protested cell phone tax payments.

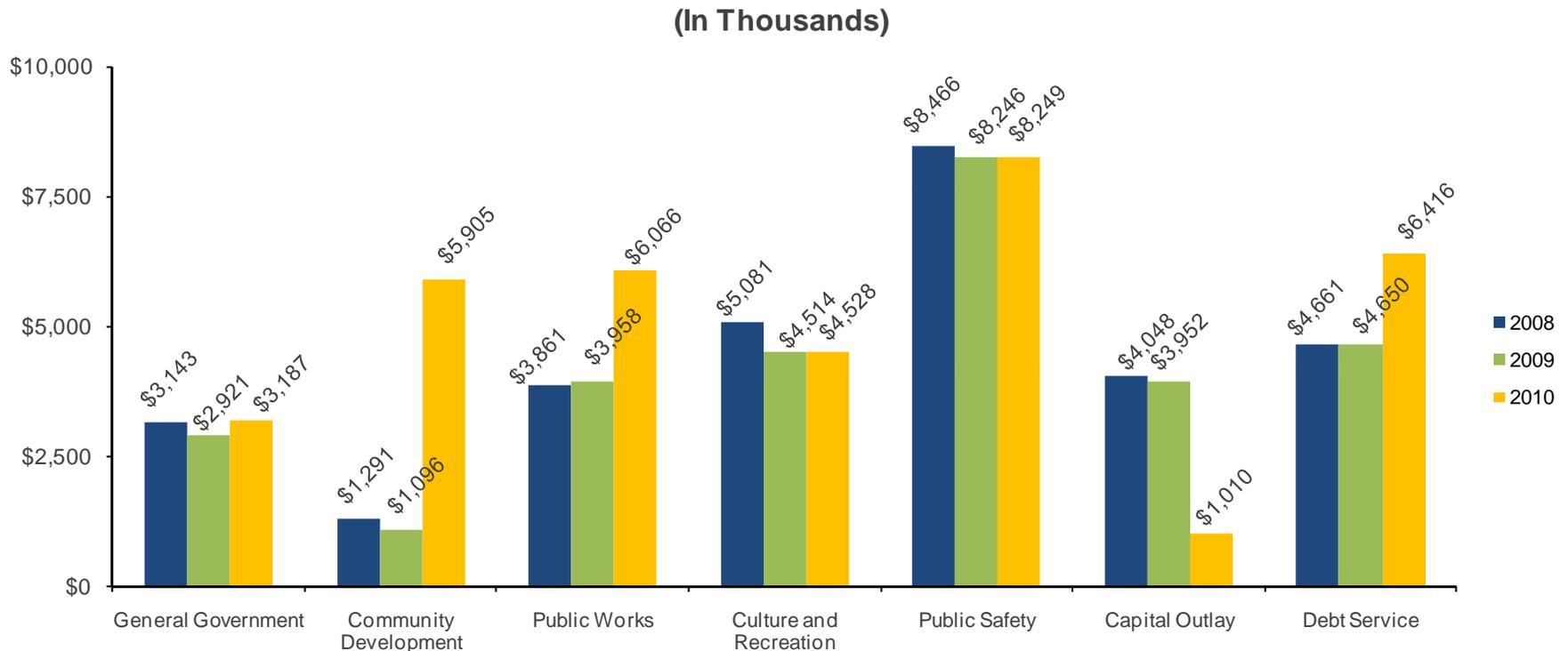
## Unreserved Fund Balances – General Fund



### OBSERVATION

Overall the unreserved fund balance has remained relatively consistent each year. Unreserved fund balance represents approximately 16% of the operating expenditures of the general fund for 2010.

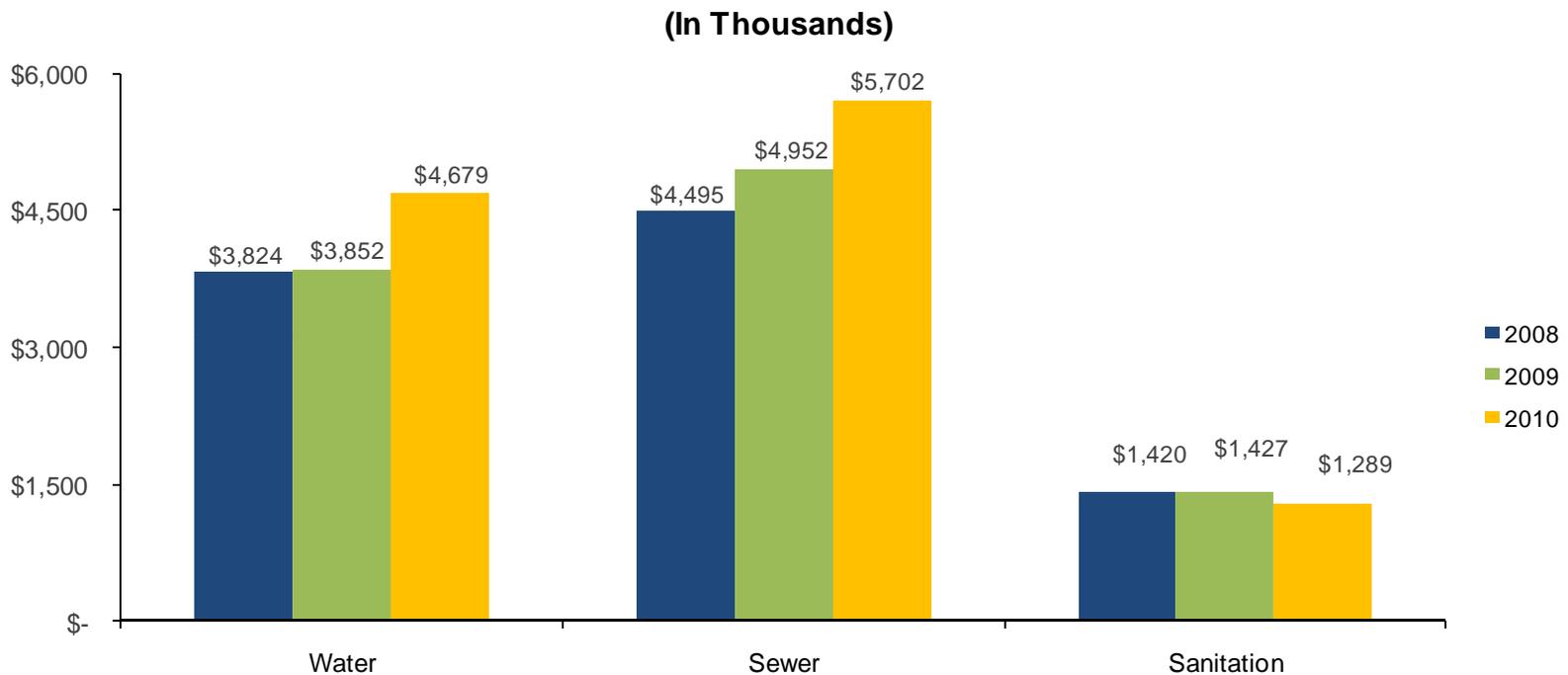
## Selected Expenditures By Function – Total Governmental Funds



### OBSERVATION

The increased expenditures in Community Development in 2010 are related to the availability of funds from new TIF bonds to cover expenditures. The increase in Public Works expenditures in 2010 is a result of the rehabilitation of sewer lines through a sewer rehabilitation grant. The increase in Debt Service relates to an additional principal payment made in 2010. The decrease in Capital Outlay relates to expected cutbacks in capital projects for 2010.

## Total Operating Revenues – Enterprise Funds

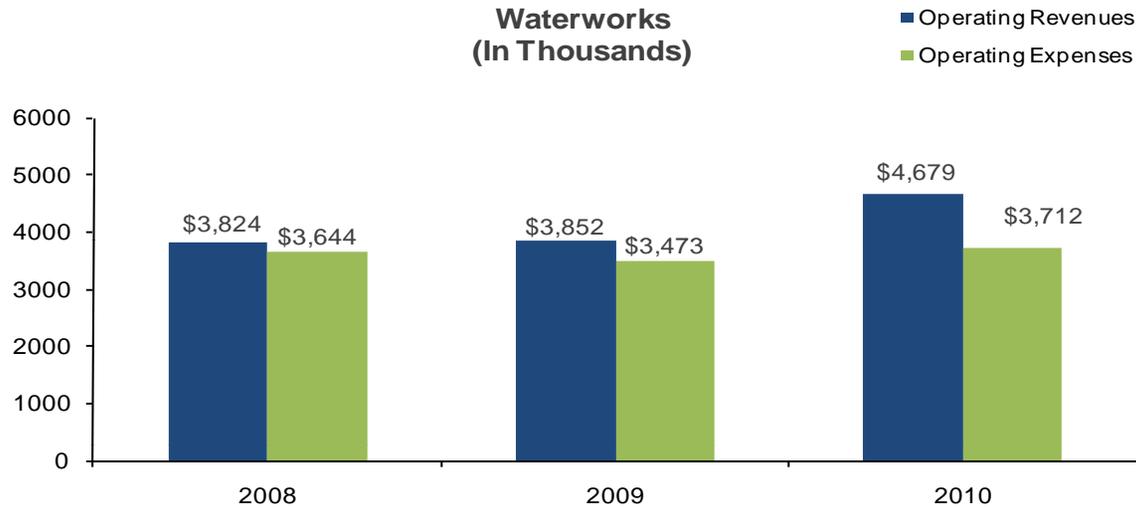


### OBSERVATION

Revenues increased in 2010 for Water and Sewer. This is a result of the increase in Water and Sewer rates and the addition of a maintenance fee on water bills. Sanitation revenue remained relatively flat over the last 3 years.

# Graphs (Continued)

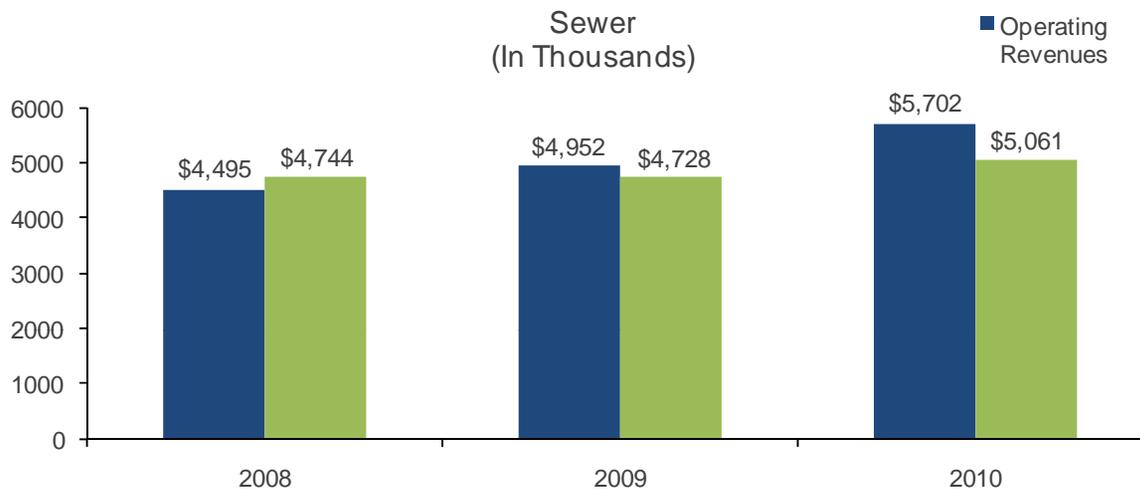
**Waterworks  
(In Thousands)**



**Observations**

Operating revenues increased by \$827,000 while operating expenses increased by \$239,000 in 2010. This increased the operating margin from 10% to 20%.

**Sewer  
(In Thousands)**



**Observations**

Operating revenues increased by \$750,000 while operating expenses increased by \$333,000 in 2010. This increased the operating margin from 5% to 11%.

# New Accounting And Auditing Pronouncements

- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* -
  - ❖ Effective for periods beginning after June 15, 2010
  - ❖ Liberty: effective for calendar year beginning January 1, 2011
  - ❖ This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is obligated to impose constraints upon the use of the resources.
    - Non-spendable
    - Restricted
    - Committed
    - Assigned
    - Unassigned
  - ❖ Special revenue funds must receive their primary revenues from sources that are either restricted or committed. Additionally, restricted or committed sources must be expected to remain a significant portion of the inflows. Revenue sources that do not meet the criteria should be reported in the general fund.



# Independent Auditors' Report On Additional Information

The Honorable Mayor and City Council  
City of Liberty, Missouri

Our report on our audit of the basic financial statements of the City of Liberty, Missouri for December 31, 2010 will appear in the financial statements of the City. That audit has been conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information presented on the preceding pages is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*RubinBrown LLP*

June 27, 2011

The City of



June 27, 2011

RubinBrown LLP

10975 Grandview Drive

Building 27, Suite 600

Overland Park, Kansas 66210

We are providing this letter in connection with your audit of the financial statements of City of Liberty, Missouri (the City) as of December 31, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Missouri and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of account information that, in the light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 27, 2011 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity. There are no component units related to the City that should be accounted for in the City's financial statements.
2. We have approved all standard, adjusting, or correcting journal entries to our financial statements proposed by you and we understand the impact they have on the financial statements.
3. We have made available to you all-
  - a. Financial records and related data.
  - b. Minutes of meetings of city council or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
6. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.

Client: 24342.0000 - City of Liberty, Missouri  
 Engagement: 2010 AUD - City of Liberty, Missouri  
 Period Ending: 12/31/2010  
 Trial Balance: TB  
 Workpaper: 3002 - Passed JE Report

Account	Description	W/P Ref	Debit	Credit
<b>Proposed JE # 6</b>		<b>4253</b>		
To propose an allowance for bad debt consistent with the bad debts incurred in the current year.				
92.30.134.38.5805	UNCOLLECTIBLE ACC		21,454.00	
92.00.000.00.1450	RESERVE FOR BAD D			21,454.00
<b>Total</b>			<b>21,454.00</b>	<b>21,454.00</b>
<b>Proposed JE # 18</b>		<b>4156</b>		
To propose adjustment for interest on SRF investment.				
92.00.000.00.1264	CASH&INVESTMENT-S		83,210.00	
92.50.000.00.3320	INTEREST EARNINGS			83,210.00
<b>Total</b>			<b>83,210.00</b>	<b>83,210.00</b>
<b>Proposed JE # 19</b>		<b>1502.2</b>		
To propose an adjustment for legal accrual - government wide entry only. Kapke attorney referenced McGuire vs. City				
10.25.011.38.5989	OTHER		100,000.00	
10.00.000.00.2100	ACCOUNTS PAYABLE			100,000.00
<b>Total</b>			<b>100,000.00</b>	<b>100,000.00</b>

7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in the internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. The City Council has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the city council is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - d. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
  - e. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provision of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statements amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. There are no-
  - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adoptings, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants

whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed.
  - d. Reservations or designations of fund equity that were not properly authorized and approved.
  - e. Material transactions, for example, grants or encumbrances that have not been properly recorded in the accounting records underlying the basic financial statements.
17. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skills, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
  18. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
  19. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  20. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
  21. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.
  22. The financial statements properly classify all funds and activities.
  23. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  24. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  25. Provisions for uncollectible receivables have been properly identified and recorded.
  26. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  27. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  28. Interfund, internal, and intra-entity activity and balanced have been appropriately classified and reported.
  29. Special and extraordinary items are appropriately classified and reported.
  30. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
  31. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated. There are no liens or encumbrances on such assets nor has any

asset been pledged as collateral. The City has also properly accounted for all capital assets, sold, destroyed, abandoned, or considered to be obsolete and of no future use.

32. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

33. With respect to federal award programs:

- a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
- b. We have, in accordance with OMB Circular A-133, prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have included, identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- c. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements.

- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
  - j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
  - k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
  - l. We have charged costs to federal awards in accordance with applicable cost principles.
  - m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
  - n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
  - o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
34. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
35. There are no such estimates that may be subject to material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one period of the date of the financial statements.
36. The City has no:
- a. Commitments for the purchase or sale of services or assets at prices involving material probable losses.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage value.
  - c. Loss to be sustained as a result of other than temporary declines in the fair value of investments.
37. The City has identified and properly accounted for all non exchange transactions.
38. The City is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. The amounts reported represent the City's best estimate of fair value of investments required to be reported under the Statement. The City also has

disclosed the methods and significant assumptions used to estimate the fair value of its investments.

39. Deposits and investment securities are properly classified as to risk.

40. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



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Dan Estes, Assistant City Administrator and Finance Director



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Curt Wenson, City Administrator



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Diana Adams, Assistant Finance Director