



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

For The Year Ended December 31, 2011



**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, 2011. The accompanying report presents information regarding the scope of our audit and other matters, which summarizes the results of our audit engagement.

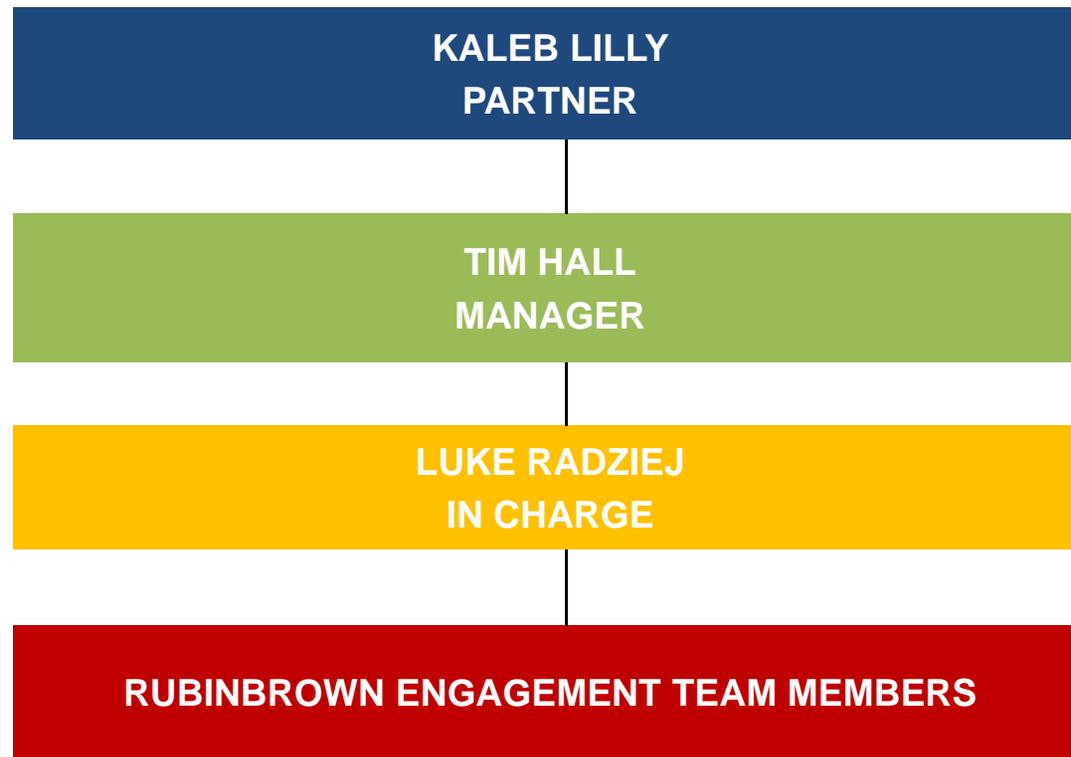
We thank you for the opportunity to be of service to the City. We have received excellent cooperation and assistance from management and staff, both with respect to access to records, supporting documentation and responses to inquiries. No limitations were imposed on our audit procedures or the extent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

Sincerely,

RubinBrown LLP

June 27, 2012

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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>Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards</p> <ul style="list-style-type: none">  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. Our audit of the financial statements does not relieve you or management of responsibility for the accuracy of the financial statements.  Professional standards also require that we obtain a significant understanding of the City's 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. 	<ul style="list-style-type: none">  We have audited the City's financial statements for the year ended December 31, 2011. Our audits were performed in accordance with auditing standards generally accepted in the United States of America. We have issued an unqualified opinion on the City's financial statements for the year ended December 31, 2011.

Auditor Communications (Continued)

AREA	COMMENTS
<p>Other Information In Documents Containing Audited Financial Statements</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>Other Information In Documents Containing Audited Financial Statements (Continued)</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>Planned Scope And Timing Of The Audit</p>	<p>✦ We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated April 11, 2012, regarding the nature, timing and extent of our audit procedures.</p>

Auditor Communications (Continued)

AREA	COMMENTS
<p>Qualitative Aspects Of Accounting Practices</p> <ul style="list-style-type: none">  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. 	<ul style="list-style-type: none">  Significant accounting policies are described in Note 1. <ul style="list-style-type: none">  The City implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” issued in March 2009. The objective of this statement is to improve the usefulness of fund balance information by providing clearer fund balance classifications that can be consistently applied and by clarifying the existing governmental fund type definitions.  No new accounting policies were adopted and the application of existing policies was not changed, except as noted above.  We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus.  No significant transactions have been recognized in a different period than when the transactions occurred.

Auditor Communications (Continued)

AREA	COMMENTS
<p>Management Judgments And Accounting Estimates</p> <ul style="list-style-type: none"> ✦ 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. ✦ 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. 	<ul style="list-style-type: none"> ✦ Allowance for uncollectible accounts receivable - Water/Sewer/Sanitation. ✦ Depreciation of capital assets. ✦ Estimated property taxes collectible. ✦ Actuarial assumptions in the calculation of annual pension and other post employment benefit costs. ✦ Valuation of contributed capital assets.
<p>Financial Statement Disclosures</p>	<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"> ✦ Disclosure 2 - Deposits and Investments ✦ Disclosure 4 - Long-Term Debt ✦ Disclosure 6 - Defined Benefit Pension Plan ✦ Disclosure 10 - Other Post Employment Benefits
<p>Difficulties Encountered In Performing The Audit</p>	<p>There were no difficulties encountered in dealing with management related to performance of the audit.</p>



Auditor Communications (Continued)

AREA	COMMENTS
Corrected And Uncorrected Misstatements	<ul style="list-style-type: none"> ✦ 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. ✦ 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 financial statements. Refer to the attached schedule labeled Passed Journal Entries.
Disagreements With Management	None
Management Representations	We have requested certain representations from management that are included in the management representation letter dated June 27, 2012. 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 Accomplishments

-  The Finance Department has continued to be successful at cross training staff in order to support processes that need be to run in the absence of other staff members.
-  The City's plan to phase out the third party operator of the water facilities has yielded a favorable change in the funds operating costs when considering the extensive costs of repairs incurred in 2011 as a result of water tower work.

Opportunities

-  The City should consider giving more consideration to the useful lives of specialty capital asset lives, such as ambulances.
-  For the 2010 audit, it was recommended that the City consider implementing a documented review of the vendor master file. Currently, the accounts payable clerk is able to add a vendor to the vendor master file without approval. An edit list or other notification is not sent to anyone else in the department when a new vendor is added. During 2011, the City did perform an annual review of the vendor master file, however we would suggest this review take place on at least a monthly basis. During 2012, the City has adjusted the procedures to incorporate a monthly review.



Management Letter

To The Honorable Mayor and
members of the City Council
City of Liberty, Missouri

In planning and performing our audit of the basic financial statements of the City of Liberty, Missouri (the City) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the following deficiency in the City's internal control to be a significant deficiency:

The City should considered reviewing and revising, as necessary, controls related to the year end close of the books and preparation of the financial statements.

The City implemented a closing process checklist for 2011, as recommended within the 2010 audit. However, since certain post-closing adjusting entries were required in the 2011 audit, additional focus should be provided for continual enhancement of the closing process standard procedure and control checklist so to make every effort to mitigate such post-closing entries.

This communication is intended solely for the information and use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

RubinBrown LLP

June 27, 2012

Statistical Comparison

Financial Ratio Study For Municipalities

GOVERNMENT-WIDE RATIOS	Quartile						Average	City Of Liberty
	First Quartile	Second Quartile	Median	Third Quartile	Fourth Quartile			
Government-Wide General Ratios								
Change in net assets as a percent of net assets (%)	✓	5.0%	2.8%	-1.5%	0.8%	7.07%		
Revenue coverage ratio (times)	1.20	✓	1.07	0.90	1.02	1.09		
Unrestricted net assets as a percent of total current year revenue (%)	43.7%		27.0%	-8.7%	✓	19.2%	-47.87%	
Accumulated depreciation as a percent of depreciable capital assets (%)	30.6%	✓	36.2%	44.4%		35.9%	35.99%	
Government-Wide Liquidity Ratio								
Liquidity ratio (times)	0.82		1.14	✓	2.54	1.36	1.33	
Government-Wide Debt Ratios								
Debt to assets leverage ratio (times)	0.14		0.28	✓	0.44	0.21	0.40	
Total debt per capita (\$ per citizen)	\$ 823	✓	\$ 1,249		\$ 2,053	\$ 1,311	\$ 954	
Government-Wide Revenue Ratios								
Tax revenues per capita (\$ per citizen)				✓				
Total grants, contributions and intergovernmental revenues as a percent of total revenues (%)	✓	\$ 547	\$ 631	✓	\$ 745	\$ 673	\$ 685	
		5.6%	9.0%		17.2%	15.0%	2.39%	

✓ = Represents City's Quartile Ranking

Statistical Comparison (Continued)

Financial Ratio Study For Municipalities

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		
Government-Wide Expense Ratios							
Total expenses per capita (\$ per citizen)	\$ 547		\$ 631	✓	\$ 1,149	\$ 1,015	\$ 893
Total general government (administration) (\$ per citizen)	\$ 113	✓	\$ 152		\$ 193	\$ 160	\$ 150
Total public safety expenses per capita (\$ per citizen)	\$ 267	✓	\$ 314		\$ 405	\$ 342	\$ 301
Total interest expenses per capita (\$ per citizen)	\$ 32	✓	\$ 60		\$ 88	\$ 56	\$ 52
GOVERNMENTAL FUND RATIOS							
Governmental Funds Expenditure Ratios							
Debt service expenditures as a percent of total revenues (%)	10.6%		15.8%	✓	23.9%	19.9%	17.17%
Capital outlay expenditures as a percent of total expenditures (%)	32.6%		23.1%		15.6%	✓ 23.3%	5.76%
GENERAL FUND RATIOS							
General Fund Financial Position Ratio							
Unreserved fund balance as a percent of total revenues (%)	47.4%		38.6%	✓	21.1%	33.8%	23.64%
General Fund Revenue Ratios							
Intergovernmental revenue as a percent of total revenue (%)	0.3%		1.4%	✓	9.2%	4.0%	1.46%
Transfers in as a percent of total revenues and transfers in (%)	0.4%		2.5%	✓	5.3%	5.2%	2.95%

✓ = Represents City's Quartile Ranking

The following cities were included in the statistical comparison:

- | | | |
|--|--|---|
|  Belton |  Leawood |  North K.C. |
|  Blue Springs |  Lee's Summit |  Olathe |
|  Gardner |  Lenexa |  Overland Park |
|  Gladstone |  Liberty |  Prairie Village |
|  Grandview |  Merriam |  Raymore |
|  Independence |  Mission |  Shawnee |

Description Of Ratios

RATIO	FORMULA	INTERPRETATION
Government-Wide General Ratios		
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
Government-Wide Liquidity Ratio		
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.
Government-Wide Debt Ratios		
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.
Government-Wide Revenue Ratios		
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.

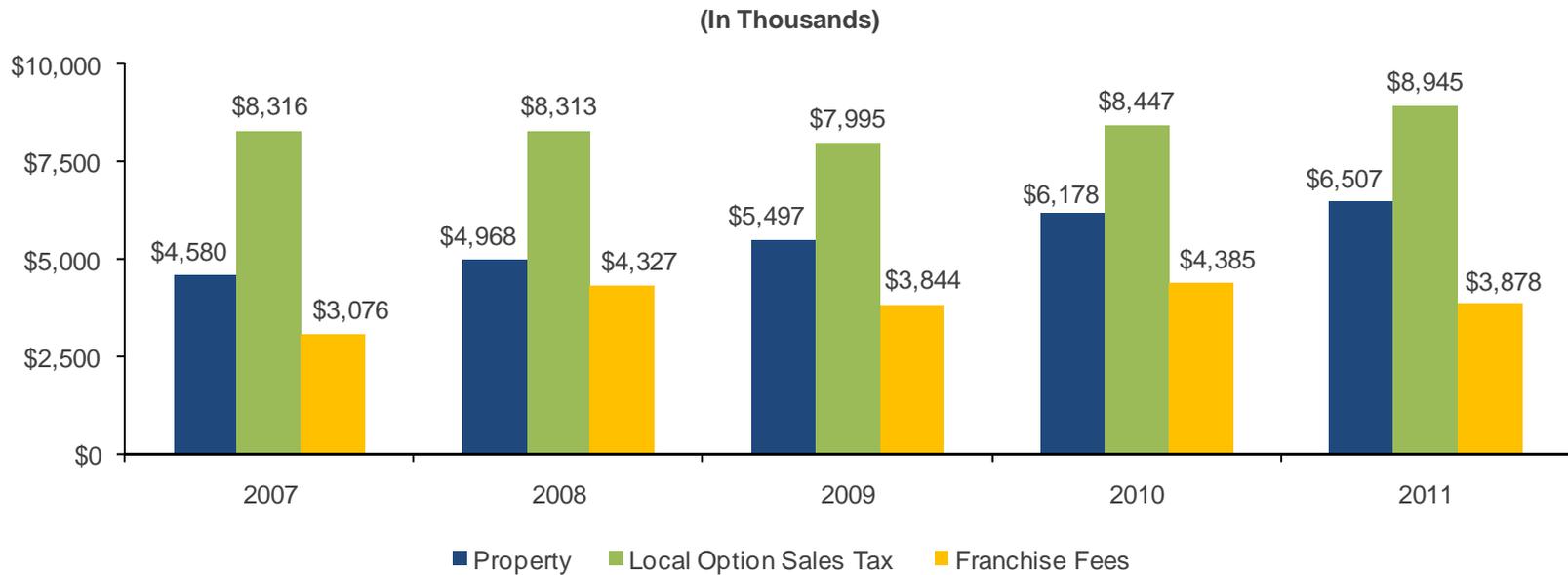
Description Of Ratios (Continued)

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.
Government-Wide Expense Ratios		
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
Government Fund Ratios		
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.
General Fund Ratios		
Unreserved fund balance as a percent of total revenues	$\frac{\text{General Fund unreserved fund balance}^*}{\text{General Fund revenues}}$ <p>*Includes both designated and undesignated unreserved fund balance.</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.

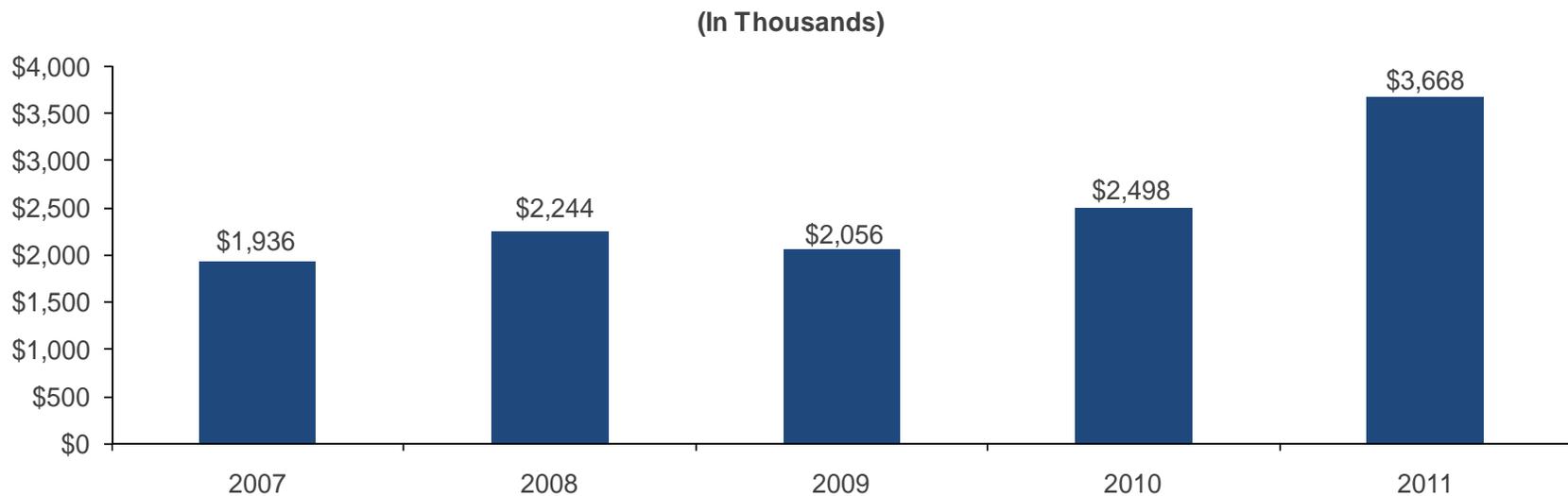
Selected Tax Revenues – Governmental Funds (Full Accrual)



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.

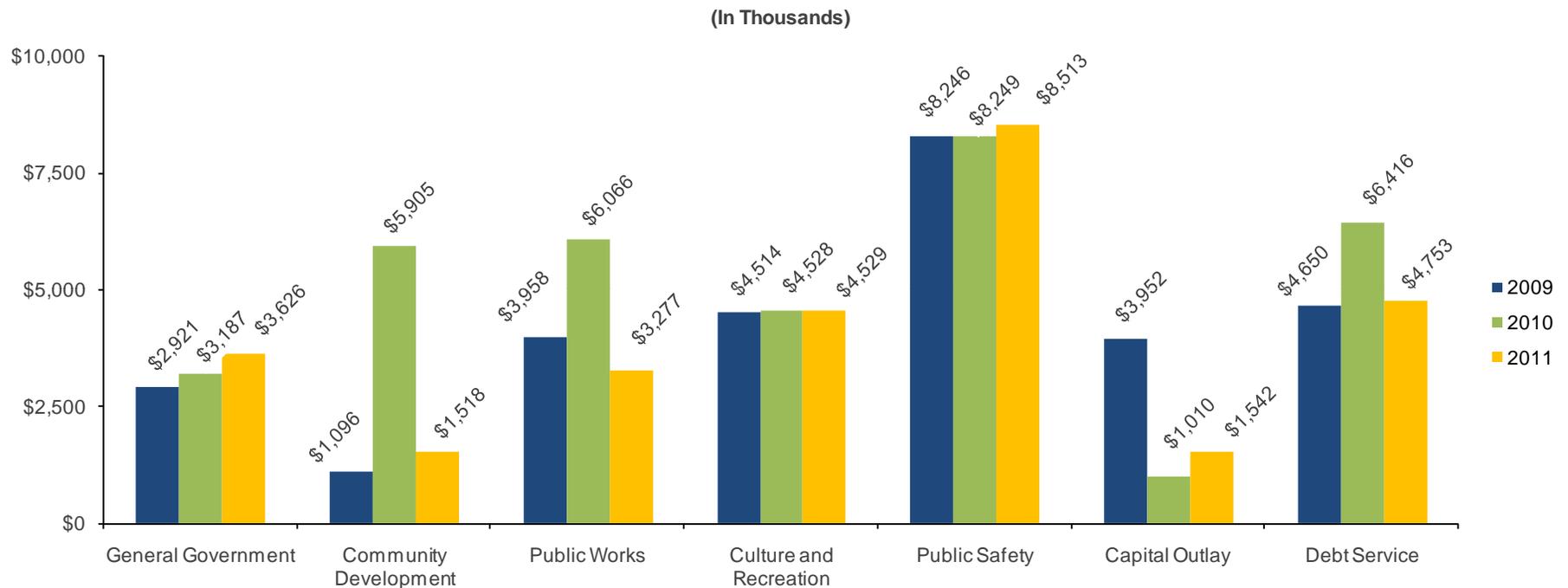
Unassigned Fund Balances – General Fund



OBSERVATION

The majority of the difference is due to a change in governmental reporting standards under GASB 54 which no longer requires a reserve for encumbrances to be presented. Overall the unassigned fund balance has remained relatively consistent each year.

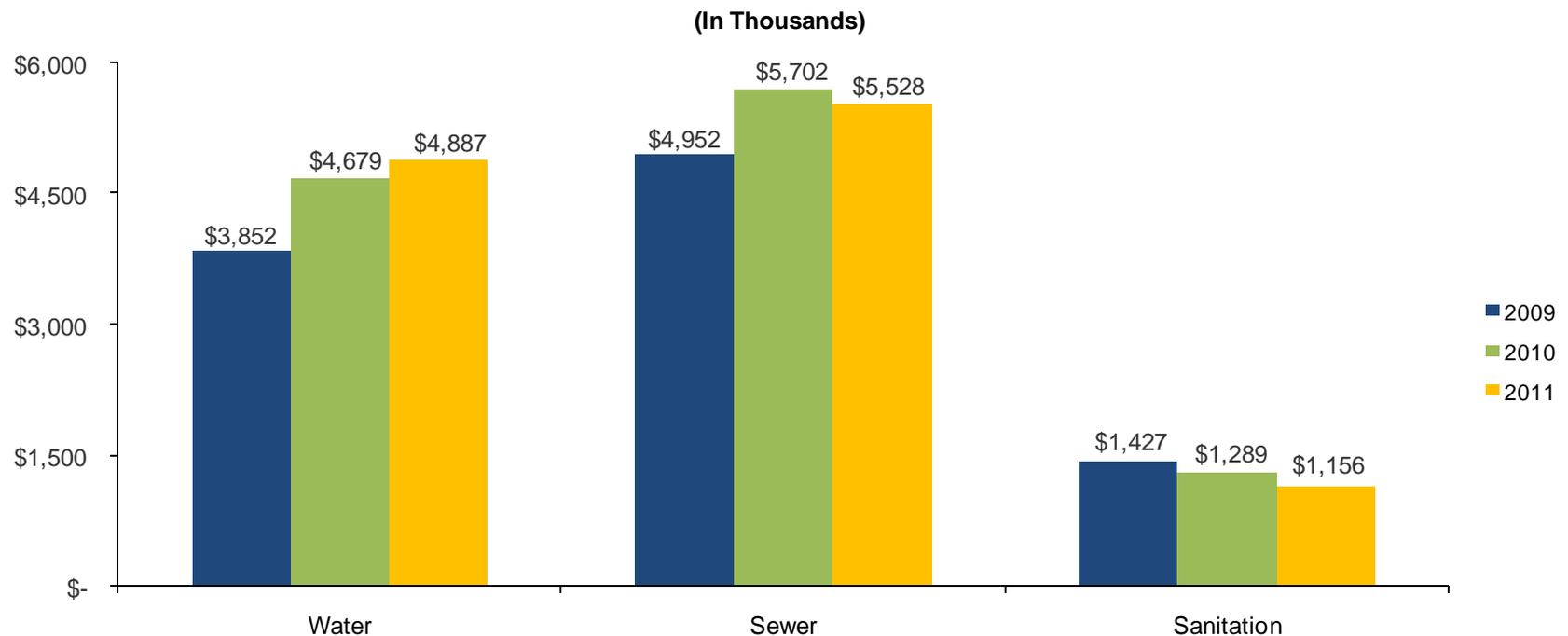
Selected Expenditures By Function – Total Governmental Funds



OBSERVATION

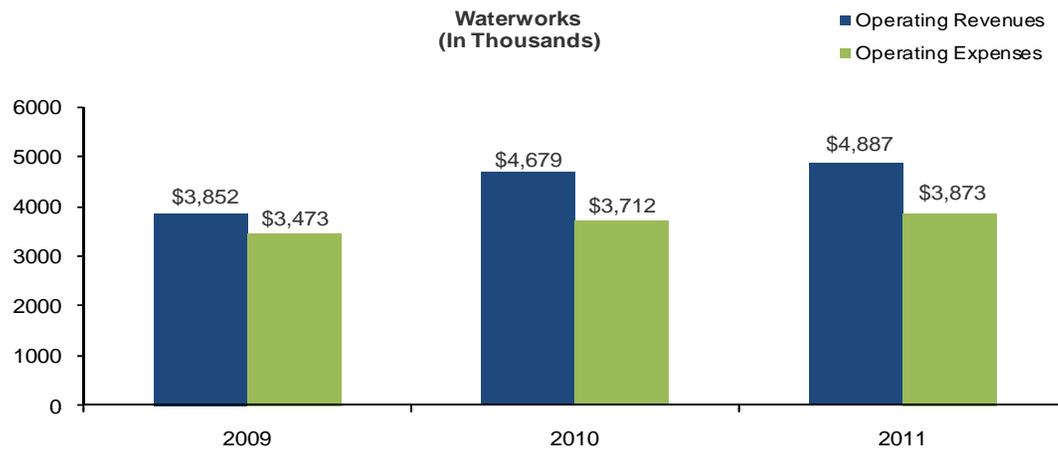
The increased expenditures in Community Development in 2010 are related to the availability of funds from new TIF bonds to cover expenditures. The increase in Public Works expenditures in 2010 is a result of the rehabilitation of sewer lines through a sewer rehabilitation grant. The increase in Debt Service relates to an additional principal payment made in 2010. The decrease in Capital Outlay relates to expected cutbacks in capital projects for 2010 and 2011.

Total Operating Revenues – Enterprise Funds



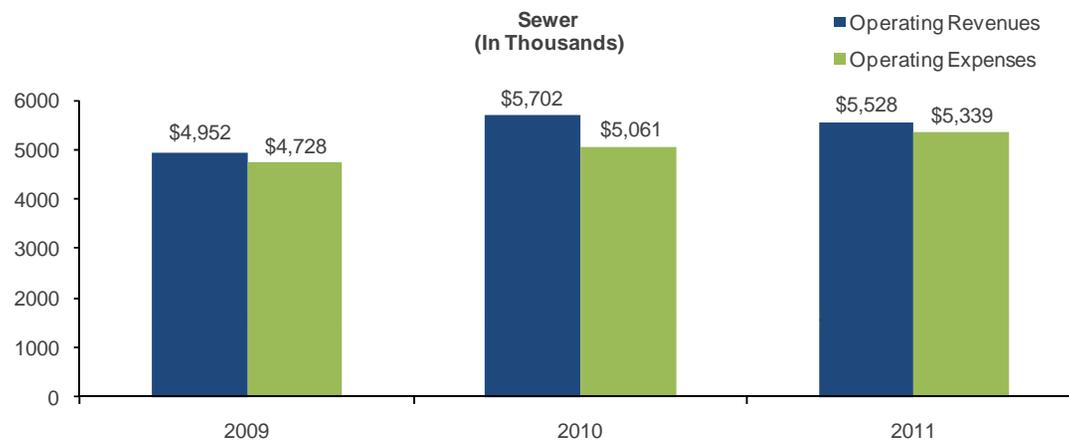
OBSERVATION

2011 Revenues for Water, Sewer, and Sanitation remained relatively flat when compared to 2010. 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.



OBSERVATIONS

Operating revenues increased by \$208,000 while operating expenses increased by \$161,000 in 2011. Thus operating margin remained at 20%.



OBSERVATIONS

Operating revenues decreased by \$174,000 while operating expenses increased by \$278,000 in 2011. This decreased the operating margin from 11% to 3%.

New Accounting And Auditing Pronouncements

- ❖ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*–
 - ❖ GASB Statement No. 63 was issued in June 2011. This statement defines deferred outflows of resources and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position. This statement is effective for periods beginning after December 15, 2011 and will be implemented by the City with their December 31, 2012 financial statements.

- ❖ GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*–
 - ❖ GASB Statement No. 65 was issued in April 2012. This statement reclassifies certain items currently reported as assets and liabilities into one of four categories: deferred outflows of resources, outflows of resources, deferred inflows of resources or inflows or resources. This statement is effective for periods beginning after December 15, 2012, however we recommend that the City implement it along with GASB 63 with their December 31, 2012 financial statements.

- ❖ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*–
 - ❖ GASB Statement No. 68 was approved on June 25, 2012. This statement improves the accounting and financial reporting of public employee pensions by state and local governments. Under the new statement, the net pension liability will equal the present value of total future benefits to be paid to current employees less the net position of the plan. This statement is effective for periods beginning after June 15, 2014 and will need to be implemented by the City with their December 31, 2015 financial statements.



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, 2011 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, 2012



June 27, 2012

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, 2011 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. We understand we are responsible for management decisions and functions, for designating a qualified employee to oversee any other nonattest services you provide, for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

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, 2012 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

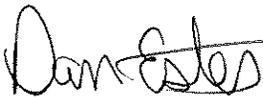
component units related to the City that should be accounted for in the City's financial statements.

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. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.
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 fund balance/net assets.
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.

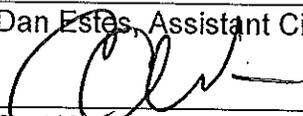
- b. Guarantees, whether written or oral, under which the city council is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - d. All accounting 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 adopting, 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, other than those already disclosed.
 - 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 components (nonspendable, restricted, committed, assigned and unassigned) are properly supported, 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. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
30. 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.
31. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
32. We acknowledge our responsibility for presenting the combining and individual nonmajor fund financial statements and other schedules - supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual nonmajor fund financial statements and other schedules - supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual nonmajor fund financial statements and other schedules - supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

33. 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.
34. 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.
35. 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.
36. The City has identified and properly accounted for all non-exchange transactions.
37. 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.
38. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets and fund balances are available and have determined that net assets and fund balances were properly recognized under the policy.
39. 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.



Dan Estes, Assistant City Administrator and Finance Director



Curt Wenson, City Administrator



Diana Adams, Assistant Finance Director

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2011 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2011**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To properly record deferred refunding costs			
90.00.000.00.1841	DEFERRED DEBITS-2	71,336.00	
90.70.803.24.6011	BOND INTEREST	73,197.00	
90.00.000.00.1840	DEFERRED DEBITS-2		144,533.00
Total		144,533.00	144,533.00
Adjusting Journal Entries JE # 2			
To record GASB 34 entry related to governmental capital asset additions			
07.00.000.00.2950	UNDESIGNATED FUND	2,777,147.00	
07.07.000.00.6050	Capital Outlay		2,777,147.00
Total		2,777,147.00	2,777,147.00
Adjusting Journal Entries JE # 3			
To record net pension obligation for LAGERS			
07.07.140.08.5333	COMPENSATION RES	174,702.00	
07.00.000.00.2561	NET PENSION		174,702.00
Total		174,702.00	174,702.00
Adjusting Journal Entries JE # 4			
To properly record disbursements for the SRF funds.			
92.00.000.00.2121	A/PAYABLE TRUSTEE	47,925.00	
92.00.000.00.1273	TRUSTEE LEV DSA		47,925.00
Total		47,925.00	47,925.00
Adjusting Journal Entries JE # 5			
Client Provided			
90.00.000.00.2872	INVESTMENT IN INF	4,009.00	
90.00.000.00.2872	INVESTMENT IN INF	80,113.00	
90.00.000.00.2878	INVESTMENT IN MAC	43,468.00	
92.00.000.00.2870	INVESTMENT CONST	89,912.00	
92.00.000.00.2872	INVESTMENT IN INF	163,182.00	
92.00.000.00.2878	INVESTMENT IN MAC	5,967.00	
90.00.000.00.2870	INVESTMENT CONST		47,477.00
90.70.000.00.3999	CAPITAL CONTRIBUT		80,113.00

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2011 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2011**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
92.00.000.00.2870	INVESTMENT CONST		169,149.00
92.70.000.00.3999	CAPITAL CONTRIBUT		89,912.00
Total		386,651.00	386,651.00

Adjusting Journal Entries JE # 6

To adjust year end balance of NID bonds

07.00.000.00.3795	SPECIAL ASSESSMENTS	5,000.00	
07.00.000.00.2255	CURRENT NID BONDS		5,000.00
Total		5,000.00	5,000.00

Adjusting Journal Entries JE # 7

To adjust beginning net assets to actual

07.07.130.44.8004	LOSS ON SALE OF A	186.00	
07.00.000.00.2950	UNDESIGNATED FUND		186.00
Total		186.00	186.00

Adjusting Journal Entries JE # 8

To adjust beginning net assets for the sewer fund to actual

92.90.000.00.3901	SEWAGE CHARGES	2.00	
92.00.000.00.2990	RETAINED EARNINGS		2.00
Total		2.00	2.00

Adjusting Journal Entries JE # 9

To reduce interfund balances recorded to agency funds

29.70.660.08.5399	MISCELLANEOUS FEE	7,552.00	
83.00.000.00.2320	DUE TO OTHER FUND	7,551.00	
29.00.000.00.1500	DUE FROM OTHER FU		7,552.00
83.70.000.00.3791	MISCELLANEOUS INC		7,551.00
Total		15,103.00	15,103.00

Adjusting Journal Entries JE # 10

To reconcile and adjust OPEB liability to actual

07.00.000.00.2560	OPEB LIABILITY	3,000.00	
07.07.000.00.8500	OPEB Expense		3,000.00
Total		3,000.00	3,000.00

Adjusting Journal Entries JE # 11

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2011 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2011**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
To adjust beginning fund balance to actual			
50.70.201.18.5601	MINOR EQUIPMENT	1.00	
54.00.000.00.2950	UNDESIGNATED FUND	1.00	
61.40.000.00.8065	FIELD RENTAL	2.00	
50.00.000.00.2950	UNDESIGNATED FUND		1.00
54.80.000.00.3809	OTHER		1.00
61.00.000.00.2950	UNDESIGNATED FUND		2.00
Total		4.00	4.00
Adjusting Journal Entries JE # 12			
To adjust transfers so they eliminate			
25.10.000.00.3001	REAL ESTATE	1.00	
25.70.664.42.5995	DEBT SERVICE FUND		1.00
Total		1.00	1.00
Adjusting Journal Entries JE # 13			
To adjust depreciation expense to actual per year end reports			
90.70.803.44.8001	DEPRECIATION	1.00	
90.30.133.14.5521	VEHICLE FUEL		1.00
Total		1.00	1.00
Adjusting Journal Entries JE # 14			
To reclass interest costs from accounts used to track refunding payments and discounts since refunding was completed in PY			
82.30.130.24.6016	SPECIAL OBLIGATIO	90,229.00	
84.30.130.24.6011	BOND INTEREST	1,829.00	
82.30.130.24.6011	INTEREST		88,279.00
82.30.130.24.6021	DEBT SERVICE FEES		1,950.00
84.30.130.24.6021	PAYING AGENT FEES		1,829.00
Total		92,058.00	92,058.00
Adjusting Journal Entries JE # 15			
To reclassify current portion of SRF note			
92.00.000.00.2284	SRF RESERVE FROM	182,753.00	
92.00.000.00.2285	WATER FUND PAYABL		182,753.00
Total		182,753.00	182,753.00

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2011 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2011**
 Trial Balance: **TB**
 Workpaper: **Passed Journal Entry Report**

Account	Description	Debit	Credit
Proposed JE # 1			
To record pooled investments at fair value/ amortized cost			
10.50.000.00.3301	INTEREST EARNINGS	10,722.00	
10.00.000.00.1200	CASH AND INVESTME		10,722.00
Total		10,722.00	10,722.00
Proposed JE # 2			
To record estimated income on the SRF reserve			
92.00.000.00.1264	CASH&INVESTMENT-S	79,540.00	
92.50.000.00.3320	INTEREST EARNINGS		79,540.00
Total		79,540.00	79,540.00
Proposed JE # 3			
To record a reserve on tax receivables at a historical collection rate once the underlying receivable becomes delinquent.			
10.10.000.00.3002	PERSONAL	19,799.00	
60.10.000.00.3002	PERSONAL	3,494.00	
10.00.000.00.1650	EST UNCOLLECTIBLE		19,799.00
60.00.000.00.1650	EST UNCOLLECTIBLE		3,494.00
Total		23,293.00	23,293.00
Proposed JE # 4			
To propose an allowance for bad debt consistent with the bad debts incurred in the current year			
92.30.134.38.5805	UNCOLLECTIBLE ACC	7,089.00	
92.00.000.00.1450	RESERVE FOR BAD D		7,089.00
Total		7,089.00	7,089.00