



**Presentation Of Results Of Annual Audit
City Of Liberty, Missouri**

For The Year Ended December 31, 2012





City of Liberty, Missouri

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, 2012. 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 26, 2013



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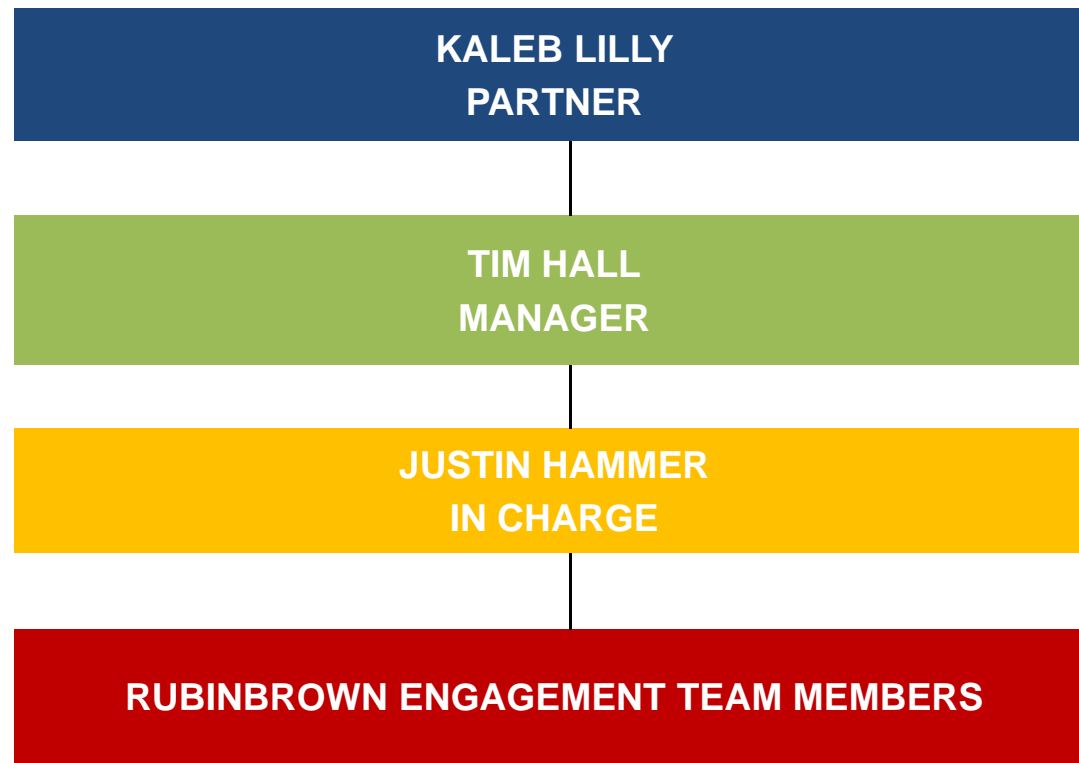
City of Liberty, Missouri

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Engagement Team

City of Liberty, Missouri





Auditor Communications

City of Liberty, Missouri

Auditing Standards require 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. This information is intended solely for the use of the Honorable Mayor, City Council and Members of Management and is not intended to be, and should not be used by anyone other than these specified parties.

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 an 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 of Liberty, Missouri's (the City) financial statements for the year ended December 31, 2012. Our audit was performed in accordance with auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i>. We have issued the following:<ul style="list-style-type: none">An unmodified opinion on the City financial statements for the year ended December 31, 2012A 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>An unmodified opinion on compliance and a report on internal controls over federal financial assistance in accordance with OMB Circular A-133



Auditor Communications (Continued)

City of Liberty, Missouri

AREA	COMMENTS
Other Information In Documents Containing Audited Financial Statements	<p>Our audit was 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 combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 express no opinion on them.</p>



Auditor Communications (Continued)

City of Liberty, Missouri

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 in accordance with auditing standards generally accepted in the United States of America. 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 24, 2013, regarding the nature, timing and extent of our audit procedures.</p>



Auditor Communications (Continued)

City of Liberty, Missouri

AREA	COMMENTS
<p>Qualitative Aspects Of Accounting Practices</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>	<p>↔ Significant accounting policies are described in Note 1.</p> <ul style="list-style-type: none"> ↔ The City implemented GASB Statement No. 63 and No. 65 during the current year. <p>↔ No new accounting policies were adopted and the application of existing policies was not changed, except as noted above.</p> <p>↔ We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus.</p> <p>↔ No significant transactions have been recognized in a different period than when the transactions occurred.</p>



Auditor Communications (Continued)

City of Liberty, Missouri

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 ➤ Disclosure 12 - Change in Accounting Principle
<p>Difficulties Encountered In Performing The Audits</p>	<p>There were no difficulties encountered in dealing with management related to performance of the audit.</p>



Auditor Communications (Continued)

City of Liberty, Missouri

AREA	COMMENTS
<p>Corrected And Uncorrected Misstatements</p>	<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.
<p>Disagreements With Management</p>	<p>None</p>
<p>Management Representations</p>	<p>We have requested certain representations from management that are included in the management representation letter dated June 26, 2013. A copy of the signed letter is attached.</p>
<p>Management Consultations With Other Independent Accountants</p>	<p>None</p>
<p>Other Audit Findings Or Issues</p>	<p>There were no matters of significant discussion that affected our retention as the City's auditors.</p>



Management Letter

City of Liberty, Missouri

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, 2012, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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.



Management Letter (Continued)

City of Liberty, Missouri

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 consider reviewing and revising, as necessary, controls related to the year end close of the books and preparation of the financial statements.

Managements' Response: We agree with the auditor's recommendation and will submit a proposed check-list to the auditors for their review for reasonable completeness.

This communication is intended solely for the information and use of management, the Honorable Mayor, 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 26, 2013



Statistical Comparison

City of Liberty, Missouri

Financial Ratio Study For Municipalities

GOVERNMENT-WIDE RATIOS	Quartile						City Of Liberty, Missouri				
	First Quartile	Second Quartile	Median	Third Quartile	Fourth Quartile	Average	2012	2011	2010	2009	
Government-Wide General Ratios											
Change in net position as a percent of net assets (%)	✓	7.0%	2.0%		-0.6%	1.5%	10.3%	7.1%	-11.5%	9.2%	
Revenue coverage ratio (times)	1.14	✓	1.04		0.95	1.04	1.13	1.09	0.88	1.16	
Unrestricted net position as a percent of total current year revenue (%)	42.9%		11.8%		-39.9%	✓	-0.7%	-56.5%	-47.9%	-51.4%	-30.8%
Accumulated depreciation as a percent of depreciable capital assets (%)	31.3%	✓	38.9%		50.6%		41.8%	36.9%	36.0%	33.5%	33.6%
Government-Wide Liquidity Ratio											
Liquidity ratio (times)	✓	2.67	1.33		0.92	2.09	3.28	1.33	1.00	0.73	
Government-Wide Debt Ratios											
Debt to assets leverage ratio (times)	0.11		0.26	✓	0.43	0.32	0.35	0.40	0.40	0.52	
Total debt per capita (\$ per citizen)	\$ 834	✓	\$ 1,950		\$ 2,031	\$ 1,534	\$ 1,220	\$ 1,002	\$ 982	\$ 850	
Government-Wide Revenue Ratios											
Tax revenues per capita (\$ per citizen)											
Total grants, contributions and intergovernmental revenues as a percent of total revenues (%)	\$ 499		\$ 647	✓	\$ 921	\$ 822	\$ 758	\$ 705	\$ 695	\$ 612	
	6.1%	✓	10.6%		15.1%	12.7%	9.8%	2.4%	8.4%	9.9%	

✓ = Represents City's Quartile Ranking



Statistical Comparison (Continued)



















City of Liberty, Missouri

Financial Ratio Study For Municipalities

GOVERNMENT-WIDE RATIOS Cont.	Quartile						Average	City Of Liberty, Missouri				
	First Quartile	Second Quartile	Median	Third Quartile	Fourth Quartile	2012		2011	2010	2009		
Government-Wide Expense Ratios												
Total expenses per capita (\$ per citizen)		\$ 851		\$ 987	✓	\$ 1,416		\$ 1,268	\$ 1,081	\$ 934	\$ 1,214	\$ 907
Total general government (administration) (\$ per citizen)		\$ 118		\$ 160	✓	\$ 199		\$ 199	\$ 191	\$ 154	\$ 141	\$ 108
Total public safety expenses per capita (\$ per citizen)		\$ 282	✓	\$ 336		\$ 443		\$ 475	\$ 319	\$ 310	\$ 300	\$ 283
Total interest expenses per capita (\$ per citizen)		\$ 29		\$ 54	✓	\$ 71		\$ 58	\$ 66	\$ 54	\$ 60	\$ 50
GOVERNMENTAL FUND RATIOS												
Governmental Funds Expenditure Ratios												
Debt service expenditures as a percent of total revenues (%)	✓	10.8%		16.9%		25.7%		18.1%	10.5%	17.2%	22.1%	15.8%
Capital outlay expenditures as a percent of total expenditures (%)		27.8%		18.8%		14.5%	✓	18.3%	5.8%	5.8%	2.9%	10.3%
GENERAL FUND RATIOS												
General Fund Financial Position Ratio												
Unassigned fund balance as a percent of total revenues (%)		44.5%		34.0%	✓	22.0%		30.8%	25.2%	23.6%	16.5%	14.5%
General Fund Revenue Ratios												
Intergovernmental revenue as a percent of total revenue (%)		0.1%		1.6%	✓	9.9%		5.9%	2.6%	1.5%	2.4%	2.8%
Transfers in as a percent of total revenues and transfers in (%)		0.8%	✓	2.6%		5.5%		4.6%	2.2%	3.0%	5.6%	7.6%

✓ = 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

City of Liberty, Missouri

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)

City of Liberty, Missouri

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)

City of Liberty, Missouri

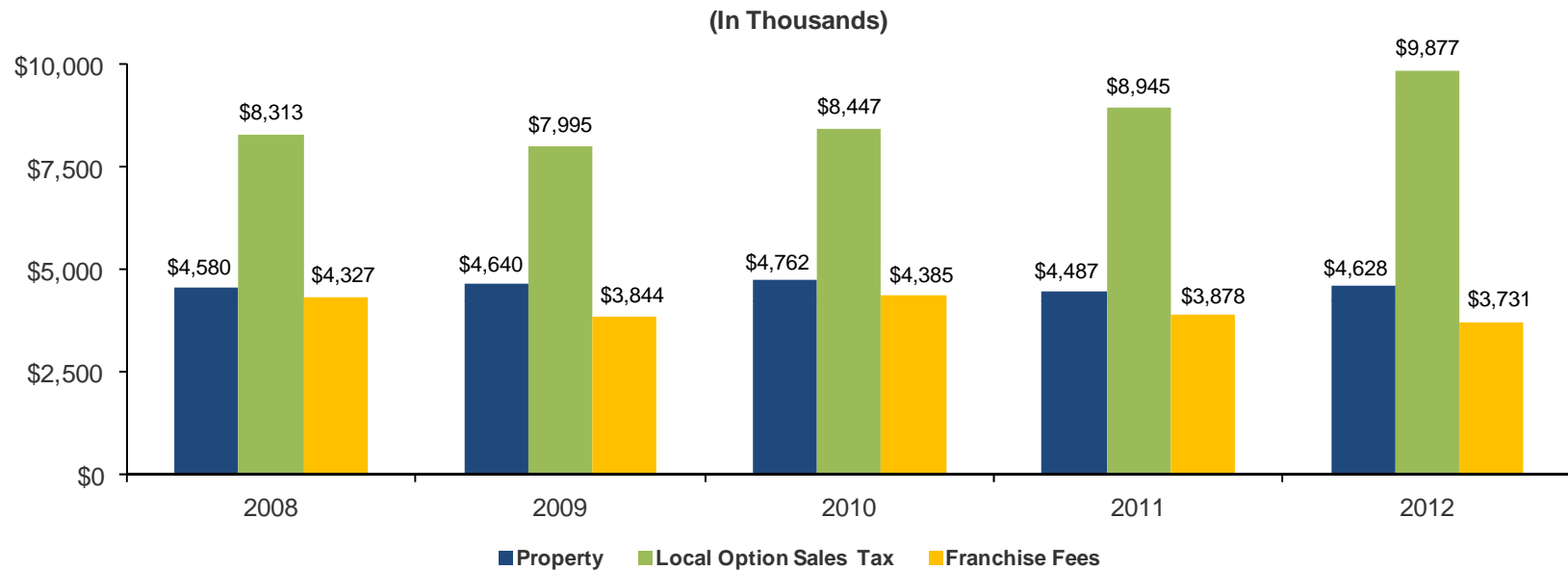
RATIO	FORMULA	INTERPRETATION
Total grants, contributions and other intergovernmental revenue as a percent of total revenue	$\frac{\text{(Governmental activities' total operating grants and contributions + total capital grants and contributions + other intergovernmental revenue)}}{\text{Governmental activities' total revenue*}}$ <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)

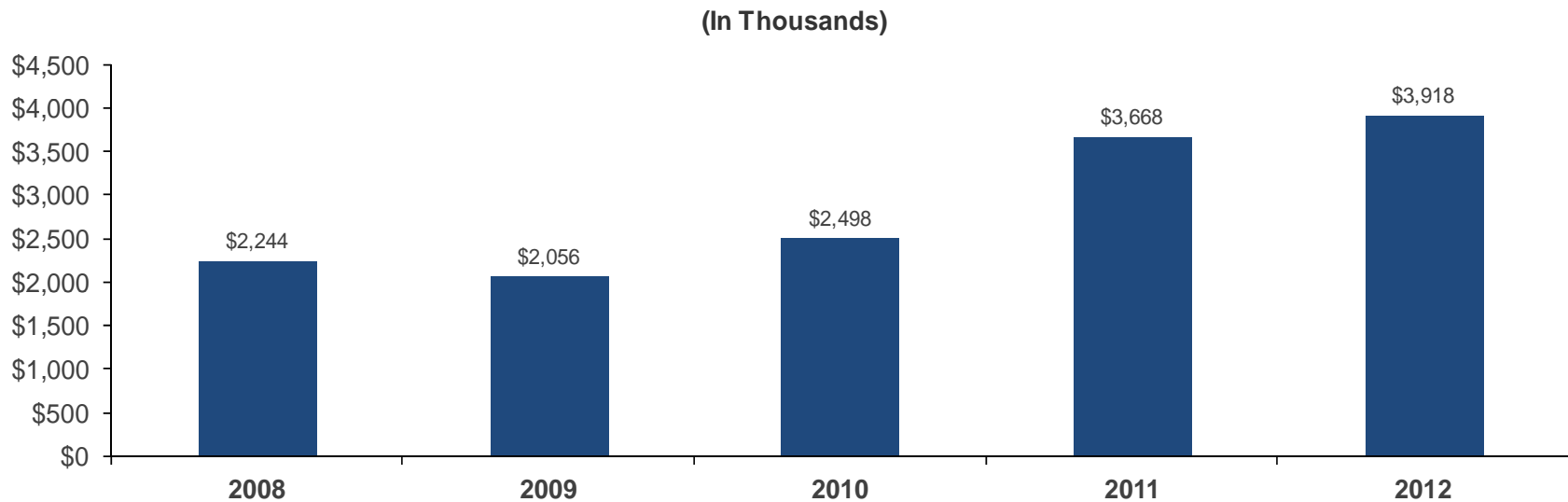
City of Liberty, Missouri

RATIO	FORMULA	INTERPRETATION
Government Fund Ratios		
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.



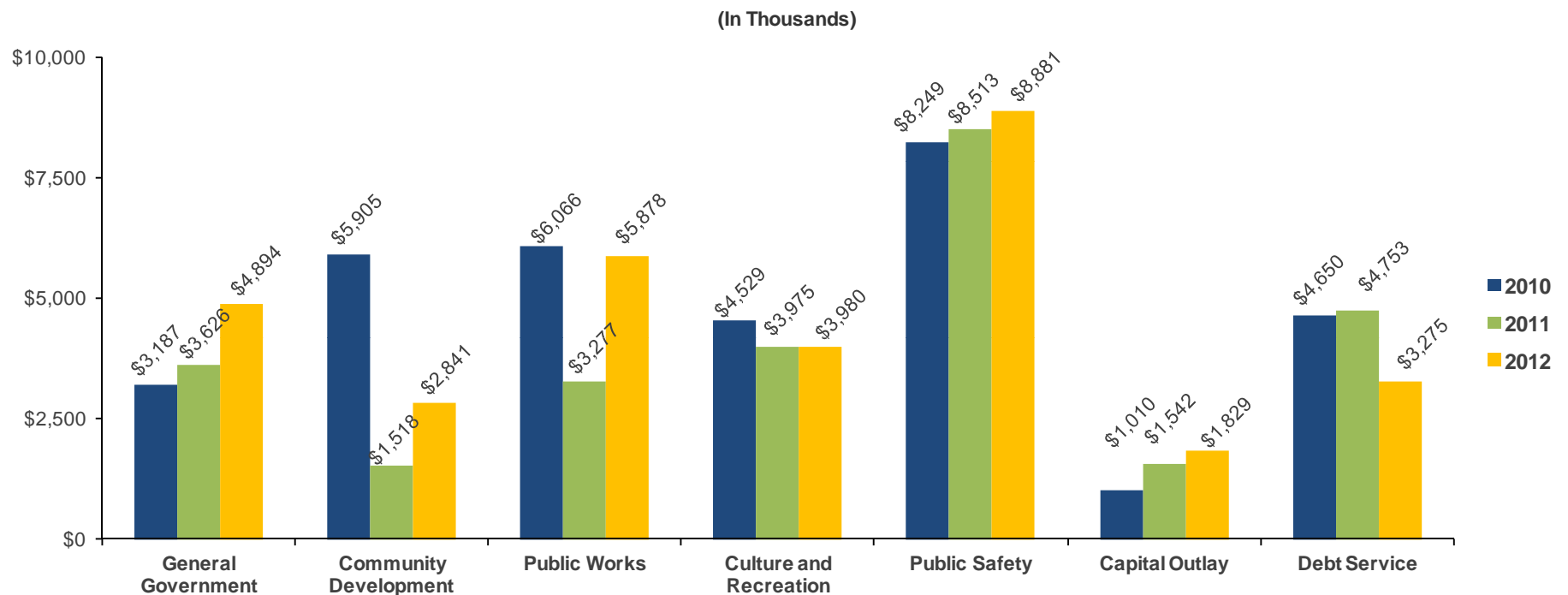
OBSERVATION

Property and Franchise taxes remained consistent from prior year. The increase in sales tax is attributed to economic growth.



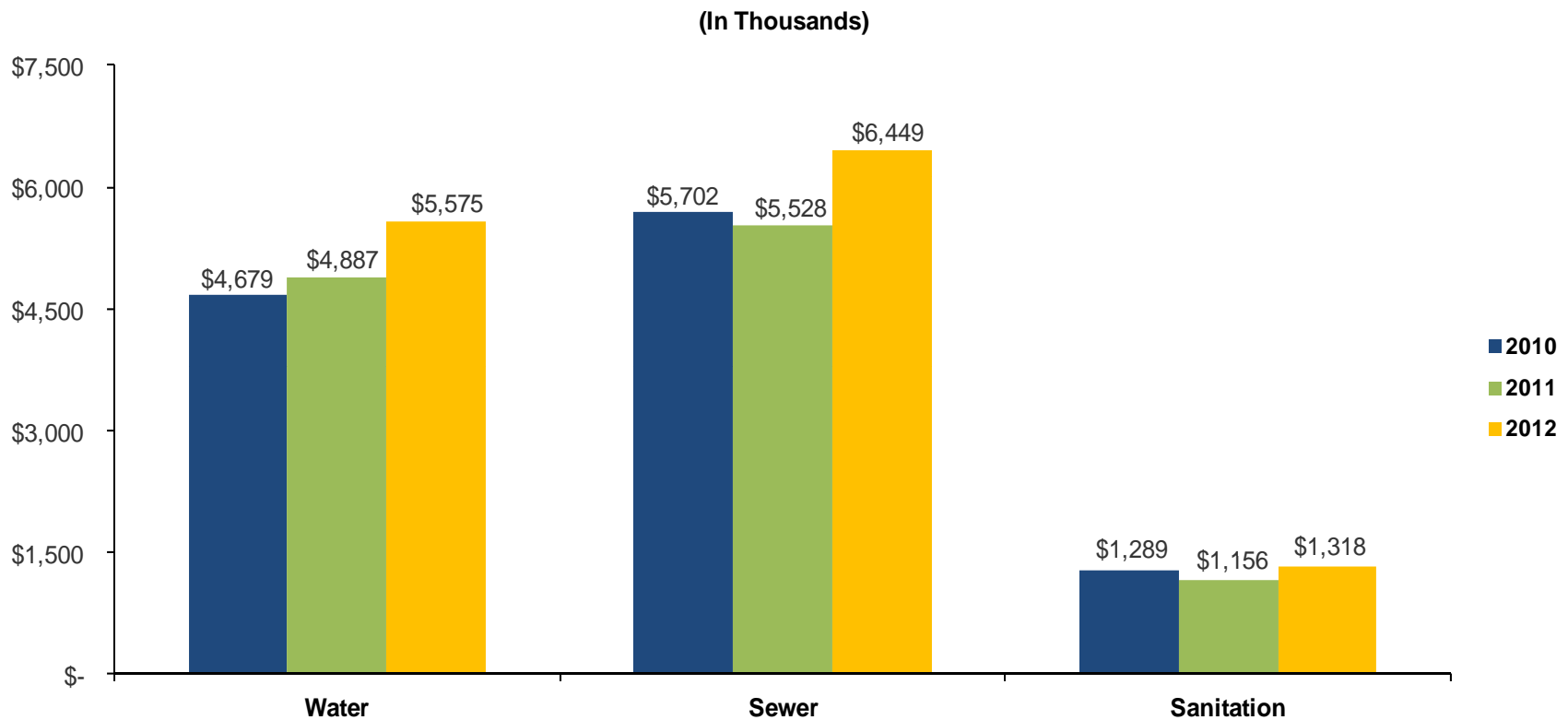
OBSERVATION

Fund balance remained relatively consistent with the prior year as there were no significant changes to the City's tax revenues or general expenses.



OBSERVATION

The increase in General Government expenditures was primarily due to the purchase of an aerial fire truck for \$1,144k. The increase in Community Development expenditures is due to the CDBG grant for “Project Victory.” The increase in Public Works and Capital Outlay expenditures relates to the ongoing I-35/291 interchange project, the Flintlock project and related engineering costs. The decrease in the Debt Service expenditures relates to the retirement of the 2001 Roadway Bonds in 2011.



OBSERVATION

2012 Revenues for Water and Sewer increased due to the dry summer and increased water rates.



New Accounting And Auditing Pronouncements

City of Liberty, Missouri

- ❖ 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.

- ❖ GASB Preliminary View, *Economic Condition Reporting: Financial Projections* -
 - ❖ GASB Preliminary View was issued in November 2011. This statement would require governments to present five-year projections of cash inflows, cash outflows, and financial obligations that would accompany the financial statements as supplementary information.



Independent Auditors' Report On Additional Information

City of Liberty, Missouri

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 (the City) for December 31, 2012 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 26, 2013



June 26, 2013

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 as of December 31, 2012 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 understand we are responsible for management decisions and functions, for designating a qualified employee to oversee any nonattest services you provide, for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

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

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. 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 and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. 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.
8. The effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.
11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

19. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. 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 provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. Besides those violations already communicated to you, there are no 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.
25. As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, 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 and schedule of expenditures of federal awards.
26. 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.
27. 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.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. 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.
30. The financial statements properly classify all funds and activities.
31. 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.
32. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance (nonspendable, restricted, committed, assigned and unassigned) amounts are properly classified and, if applicable, approved.
33. Investments are properly valued.
34. Provisions for uncollectible receivables have been properly identified and recorded.

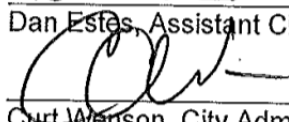
35. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
36. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
40. 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 position are available and have determined that net position was properly recognized under the policy.
41. 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.
42. We acknowledge our responsibility for presenting the combining and individual nonmajor fund financial statements and schedules in accordance with U.S. generally accepted accounting principles, and we believe the combining and individual nonmajor fund financial statements and schedules, including its form and content, is fairly presented in accordance with U.S. generally accepted accounting principles. The methods of measurement and presentation of the combining and individual nonmajor fund financial statements and schedules 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.
43. 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, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA 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 direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, 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.
- f. 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.
- g. 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 relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), 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 all known noncompliance with the requirements of federal awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. 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 to State and Local Governments.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- n. We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- r. 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.
- s. 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.
- t. We have charged costs to federal awards in accordance with applicable cost principles.
- u. 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.
- v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- x. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.



Dan Estes, Assistant City Administrator and Finance Director



Curt Wenson, City Administrator

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2012 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2012**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust beginning fund balance to match 2011 ending balance			
10.00.000.00.2950	UNDESIGNATED FUND	5.00	
10.10.101.04.5001	GENERAL SUPPLIES		5.00
Total		5.00	5.00
Adjusting Journal Entries JE # 2			
To adjust beginning fund balance to match 2011 ending balance			
10.00.000.00.2660	RESERVE FOR ENCUM	1.00	
50.70.211.02.4001	REGULAR	1.00	
54.80.000.00.3809	OTHER	1.00	
61.00.000.00.2100	ACCOUNTS PAYABLE	1.00	
10.20.001.02.4001	REGULAR		1.00
50.00.000.00.2950	UNDESIGNATED FUND		1.00
54.00.000.00.2950	UNDESIGNATED FUND		1.00
61.00.000.00.2950	UNDESIGNATED FUND		1.00
Total		4.00	4.00
Adjusting Journal Entries JE # 3			
To record part of a prior year JE that the client did not post. See PY JE # 12.			
83.00.000.00.2320	DUE TO OTHER FUND	7,550.00	
83.00.000.00.2950	UNDESIGNATED FUND		7,550.00
Total		7,550.00	7,550.00
Adjusting Journal Entries JE # 4			
To adjust Net Pension Obligation balance			
07.00.000.00.2950	UNDESIGNATED FUND	174,702.00	
07.07.140.08.5333	COMPENSATION RES	99,505.00	
07.00.000.00.2561	NET PENSION		274,207.00
Total		274,207.00	274,207.00
Adjusting Journal Entries JE # 11			
To expense additional issuance costs for GASB 65 and correct client journal entry in which the client amortized a bond premium no longer on the books			
07.07.611.24.6011	NOTE INTEREST	44,767.00	
07.07.660.24.6011	NOTE INTEREST	168,286.00	
07.00.000.00.1847	BOND ISSUANCE COS		168,286.00
07.00.000.00.2543	BOND PREMIUM 2005		44,767.00
Total		213,053.00	213,053.00

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2012 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2012**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 12			
To properly state gasoline and vehicle tax revenue			
10.10.000.00.3034	STATE-GASOLINE TA	59,914.00	
10.10.000.00.3035	STATE-VEHICLE SAL	25,137.00	
10.00.000.00.1576	GAS & VEHICLE TAX		85,051.00
Total		85,051.00	85,051.00
Adjusting Journal Entries JE # 14			
To record sewer development fees that have already been collected			
92.00.000.00.2554	DEFERRED-SHOAL CR	135,867.00	
92.00.000.00.1400	ACCOUNTS RECEIVAB		135,867.00
Total		135,867.00	135,867.00
Adjusting Journal Entries JE # 15			
To reclass \$3,680 out of miscellaneous income as this relates to the Federal MARC Aging grant.			
10.70.000.00.3791	MISCELLANEOUS INC	3,680.00	
10.30.000.00.3103	MARC FUNDS		3,680.00
Total		3,680.00	3,680.00
Adjusting Journal Entries JE # 17			
To record capital asset additions in the current ydear			
07.00.000.00.2950	UNDESIGNATED FUND	6,139,701.00	
07.07.000.00.6050	Capital Outlay		6,139,701.00
Total		6,139,701.00	6,139,701.00
Adjusting Journal Entries JE # 18			
To record capital lease additions as a current year GASB 34 adjustment			
07.70.000.00.3794	BOND PROCEEDS	1,503,198.00	
07.00.000.00.1853	TO BE PROVIDED-LO		1,503,198.00
Total		1,503,198.00	1,503,198.00
Adjusting Journal Entries JE # 19			
To remove capital lease relating to sewer funds			
07.00.000.00.2259	CURRENT CAPITAL L	47,111.00	
07.00.000.00.2279	CAPITAL LEASES-SP	306,124.00	
50.95.140.24.6024	COST OF ISSUANCE-	2,723.00	
58.50.325.24.6023	LEASE SERVICE FEE	13,728.00	
92.00.000.00.1275	LEASE PURCHASE RECEIVABLE	349,686.00	
92.70.903.24.6024	COST OF ISSUANCE	3,549.00	

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2012 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2012**
 Trial Balance: **TB**
 Workpaper: **Adjusting Journal Entries**

Account	Description	Debit	Credit
07.00.000.00.1853	TO BE PROVIDED-LO		353,235.00
50.70.000.00.3793	LEASE PROCEEDS		2,723.00
58.70.000.00.3793	LEASE PROCEEDS		13,728.00
92.00.000.00.2281	Capital Lease - LT		306,124.00
92.00.000.00.2544	Capital Lease - Current		47,111.00
Total		722,921.00	722,921.00

Adjusting Journal Entries JE # 20

To record the correct principal balance on 2012 fitness equipment capital lease - see the "2012 Fitness Ceuip Lease" tab

07.00.000.00.2274	CAPITAL LEASES PA	3,084.00	
07.70.000.00.3794	BOND PROCEEDS		3,084.00
Total		3,084.00	3,084.00

Adjusting Journal Entries JE # 21

To record annual amortization of 2012 GO refunding and improvement bonds

07.00.000.00.2286	BOND PREMIUM	71,345.00	
07.07.611.24.6011	NOTE INTEREST		71,345.00
Total		71,345.00	71,345.00

Client: **24342.0000 - City of Liberty, Missouri**
 Engagement: **2012 AUD - City of Liberty, Missouri**
 Period Ending: **12/31/2012**
 Trial Balance: **TB**
 Workpaper: **Passed Journal Entries**

Account	Description	Debit	Credit
Proposed JE # 5			
To record estimated income on SRF reserve investment			
92.00.000.00.1264	CASH&INVESTMENT-S	75,571.00	
92.50.000.00.3320	INTEREST EARNINGS		75,571.00
Total		<u>75,571.00</u>	<u>75,571.00</u>
Proposed JE # 6			
To reduce expense from client correction that should have been recognized in the PY			
10.00.000.00.2950	UNDESIGNATED FUND	63,153.00	
10.30.130.02.4105	HEALTH INSURANCE		63,153.00
Total		<u>63,153.00</u>	<u>63,153.00</u>
Proposed JE # 13			
To record estimate of uncollectible accounts for remaining delinquent years			
10.10.000.00.3002	PERSONAL	19,127.00	
60.10.000.00.3002	PERSONAL	3,375.00	
10.00.000.00.1650	EST UNCOLLECTIBLE		19,127.00
60.00.000.00.1650	EST UNCOLLECTIBLE		3,375.00
Total		<u>22,502.00</u>	<u>22,502.00</u>
Proposed JE # 16			
To record CY interest accrual adjustment			
07.00.000.00.2500	DEBT SERVICE PAYA	48,112.00	
07.07.660.24.6011	NOTE INTEREST		48,112.00
Total		<u>48,112.00</u>	<u>48,112.00</u>
Proposed JE # 23			
To accrue for loss contingency related to lawsuit			
07.07.130.44.8005	Miscellaneous Expense	100,000.00	
07.00.000.00.2508	Accrued Liability - Litigation		100,000.00
Total		<u>100,000.00</u>	<u>100,000.00</u>