

**CITY OF LIBERTY**  
**Liberty, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2015**

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## City of Liberty, Kentucky

### Management's Discussion and Analysis

Our discussion and analysis of the City of Liberty's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read in conjunction with the auditor's report on page 9-10 and the City's financial statements, which begin on page 11.

#### FINANCIAL HIGHLIGHTS

- The City's net position decreased in the governmental activities and decreased in the business-type activities. The net position of the governmental activities decreased by \$745,491, and the net position of the business-type activities decreased to \$8,789,067, which was a 6.3 percent decrease from the previous year.
- In the City's governmental activities, revenues increased by \$178,337, or 21.1 percent, and expenses increased by 97.8 percent to \$2,041,272. In the business-type activities, revenues decreased to \$2,669,620 which is a decrease of 2.2 percent, while expenses decreased by 5.6 percent to \$2,997,782.

#### OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditors' report, the basic financial statements of the City and the independent auditors' report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

The City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

## **GOVERNMENT – WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net position of the City and the changes in them. One can think of the City's net position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

**Governmental activities**—Most of the City's basic services are reported here, including general government administration, police, fire, dispatch, streets, sanitation and parks. Property taxes, licenses and permits, and grants finance most of these activities.

**Business-type activities**—The City collects fees from customers to cover the costs of the services, which includes gas, water, sewer and garbage.

## **FUND FINANCIAL STATEMENTS**

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

**Governmental Fund**—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

**Proprietary Fund**—Services for which the City charges customers a fee are generally reported in proprietary funds.

## NET POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2, which is also followed by an explanation of the results.

Table A-1

### Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>
Current and Other Assets	\$ 558,454	\$ 389,533	\$ 1,585,969	\$ 1,759,241	\$ 2,144,423	\$ 2,148,774
Capital Assets	2,241,037	2,370,662	13,032,600	13,717,439	15,273,637	16,088,101
Deferred Outflows	<u>29,497</u>	<u>31,320</u>	<u>81,966</u>	<u>86,363</u>	<u>111,463</u>	<u>117,683</u>
Total Assets	<u>2,828,988</u>	<u>2,791,515</u>	<u>14,700,535</u>	<u>15,563,043</u>	<u>17,529,523</u>	<u>18,354,558</u>
Long-Term Debt Outstanding	889,699	118,779	4,683,750	4,905,000	5,573,449	5,023,779
Net Pension	322,610	363,987	639,763	721,817	962,373	1,085,804
Deferred Inflows	28,695	-	56,905	-	85,600	-
Current Liabilities	<u>101,395</u>	<u>76,669</u>	<u>531,050</u>	<u>557,070</u>	<u>632,445</u>	<u>633,739</u>
Total Liabilities	<u>1,342,399</u>	<u>559,435</u>	<u>5,911,468</u>	<u>6,183,887</u>	<u>7,253,867</u>	<u>6,743,322</u>
Net Position:						
Invested in Capital Assets, net of related debt	2,122,258	2,222,659	8,151,071	8,581,816	10,273,329	10,804,475
Restricted	315,209	246,935	164,250	164,250	479,459	411,185
Unrestricted	<u>(950,878)</u>	<u>(237,514)</u>	<u>473,746</u>	<u>633,090</u>	<u>(477,132)</u>	<u>395,576</u>
Total Net Position	<u>\$ 1,486,589</u>	<u>\$ 2,232,080</u>	<u>\$ 8,789,067</u>	<u>\$ 9,379,156</u>	<u>\$ 10,275,656</u>	<u>\$ 11,611,236</u>

As further explained in notes 8 and 11 of the Notes to the Financial Statements, GASB Statement No. 68 changed how governments calculate and report the costs and obligations associated with pensions. This new standard required the City of Liberty to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts from the Kentucky County Employees Retirement System. Information necessary to meet the new reporting requirement for the current year was provided by the Kentucky Retirement System. However, information necessary to restate all values for the prior year were not provided. As such, only net pension liability, and deferred outflows of resources have been restated for the prior year. A \$969,483 adjustment to the prior year's ending net position was made to represent the total retroactive effects of the application of GASB 68. This is important to note as we compare current year and prior year balances since there were no adjustments to the prior year statement of activities.

After the change described above, the net position of the City's governmental activities decreased from \$2,232,080 in 2014 to \$1,486,589 in 2015, which is a 33.4% decrease. The net position of the business-type activities decreased from \$9,379,156 to \$8,789,067 in 2015, which is a 6.3 percent decrease. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

**NET POSITION, continued**

**Table A-2**

**Condensed Statement of Activities**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for Service	\$ 2,800	\$ 2,840	\$ 2,645,077	\$ 2,699,072	\$ 2,647,877	\$ 2,701,912
Operating Grants & Contributions	86,866	90,608	-	-	86,866	90,608
Capital Grants & Contributions	47,646	8,250	3,382	6,631	51,028	14,881
<u>General Revenue</u>						
Taxes	377,619	265,476	-	-	377,619	265,476
License fees	309,860	259,568	-	-	309,860	259,568
Permits	5,512	20,439	-	-	5,512	20,439
Other Grants and Contributions	2,455	2,054	-	-	2,455	2,054
Investment Earnings	1,971	7,307	17,178	24,208	19,149	31,515
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	52,447	52,297	3,983	404	56,430	52,701
<b>Total Revenue</b>	<u>1,022,176</u>	<u>843,839</u>	<u>2,669,620</u>	<u>2,730,315</u>	<u>3,691,796</u>	<u>3,574,154</u>
<b>Program Expenses</b>						
General Government	1,367,120	426,399	-	-	1,367,120	426,399
Public Safety - Police	361,570	375,133	-	-	361,570	375,133
Public Safety - Fire	156,066	140,251	-	-	156,066	140,251
Streets Department	144,909	85,999	-	-	144,909	85,999
Interest on Long-term Debt	11,607	4,315	-	-	11,607	4,315
Utility	-	-	2,997,782	3,175,534	2,997,782	3,175,534
<b>Total Program Expenses</b>	<u>2,041,272</u>	<u>1,032,097</u>	<u>2,997,782</u>	<u>3,175,534</u>	<u>5,039,054</u>	<u>4,207,631</u>
<b>Other Changes</b>						
Transfers	256,689	156,113	(5,238)	(156,113)	251,451	-
Gain (loss) on sale of assets	16,916	2,403	(256,689)	3,392	(239,773)	5,795
<b>Total Other Changes</b>	<u>273,605</u>	<u>158,516</u>	<u>(261,927)</u>	<u>(152,721)</u>	<u>11,678</u>	<u>5,795</u>
<b>Change In Net Position</b>	<u>\$ (745,491)</u>	<u>\$ (29,742)</u>	<u>\$ (590,089)</u>	<u>\$ (597,940)</u>	<u>\$ (1,335,580)</u>	<u>\$ (627,682)</u>

The City's total revenue increased by 3.3 percent and the total cost of all programs reflected an increase of 19.8 percent. On the following page is a more in-depth description of the revenues and expenses of the governmental and business-type activities.

Looking at the business-type activities, revenues for the City decreased to \$2,669,620, or 2.2 percent, while total expenses decreased 5.6 percent. The decrease of revenues combined with the decrease of expenses and increase in other changes decreased the change in net position to

(\$590,089). The City's major source of revenue in the business-type activities is charges for services, which decreased to \$2,645,077. This revenue source makes up 99.1 percent of total revenues. The capital grants and contributions included grants for the water and sewer system expansion as discussed on page 7.

As previously noted, prior year balances do not include adjustments for GASB 68 beyond an adjustment to the ending net position, net pension liability and deferred outflows of resources balances. The effect of the implementation of GASB 68 on the current year resulted in a reduction of \$65,735 to the monthly payments made to the Kentucky Retirement System. This amount represents changes in the net pension liability from year to year.

## GOVERNMENTAL ACTIVITIES

Next, the City analyzes the governmental activities and the changes in those activities, which is presented in Table A-3.

**Table A-3**

### Condensed Governmental Activities - Revenues & Expenditures

	<u>FY 2015</u>	<u>FY2014</u>	<u>Change</u>
Taxes	\$ 377,619	\$ 265,476	\$ 112,143
Licenses and permits	315,372	280,007	35,365
Fines and Forfeits	1,240	1,175	65
Intergovernmental	136,967	100,912	36,055
Charges for Services	2,800	2,840	(40)
Other Revenues	<u>188,178</u>	<u>193,429</u>	<u>(5,251)</u>
Total Revenues	<u>1,022,176</u>	<u>843,839</u>	<u>178,337</u>
General Government	\$ 1,291,029	\$ 359,564	\$ 931,465
Public Safety	466,161	459,018	7,143
Streets Department	144,909	85,999	58,910
Capital Outlay	122,941	127,595	(4,654)
Debt Service	<u>40,831</u>	<u>33,857</u>	<u>6,974</u>
Total Expenditures	<u>2,065,871</u>	<u>1,066,033</u>	<u>999,838</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (1,043,695)</u>	<u>\$ (222,194)</u>	<u>\$ (821,501)</u>

Revenues for the City's governmental activities increased by 21.1 percent, while total expenditures increased by 93.8 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) increased by \$821,501. The City's major sources of revenue in the governmental activities are other revenue (18.4 percent), licenses and permits (30.9 percent), taxes (36.9 percent) and intergovernmental (13.4 percent). These revenue sources increased 21.2 percent in 2015. The major change in expenditures in the governmental activities was an increase in general government of \$931,465 which \$1,014,909 is due to the support of the education center by the City during 2015.

## BUDGET HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments were made shortly after the beginning of the year to reflect events that may occur. The budget contains proposed expenditures and expected revenues. A comparison of the final amended budget to actual amounts is presented in the table below (Tables A-4 & 5).

**Table A-4**

**Condensed Governmental Activities - Revenues and Other Financing Sources**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 274,750	\$ 281,225	\$ 6,475
Licenses and permits	305,500	315,372	9,872
Fines and Forfeitures	1,000	1,240	240
Intergovernmental	85,546	89,003	3,457
Charges for Services	2,600	2,800	200
Other Revenues	172,625	184,093	11,468
Transfers in (out)	230,000	256,689	26,689
Sale of Asset	144,500	144,557	57
Note Proceeds	<u>750,000</u>	<u>850,000</u>	<u>100,000</u>
Total Revenues and Other Financing Sources	<u>\$ 1,966,521</u>	<u>\$2,124,979</u>	<u>\$ 158,458</u>

**Table A-5**

**Condensed Governmental Activities - Expenditures**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 1,288,910	\$1,289,437	\$ 527
Public Safety	478,430	466,161	(12,269)
Streets Department	67,450	66,332	(1,118)
Bond issuance expense	-	13,500	
Debt Service	34,918	40,831	5,913
Capital Outlay	<u>96,730</u>	<u>122,941</u>	<u>26,211</u>
Total Expenditures	<u>\$ 1,966,438</u>	<u>\$1,999,202</u>	<u>\$ 32,764</u>

The City budgeted for a total of \$1,966,521 in revenues and other financing sources for 2015, but ended up having revenues of \$2,124,979, which put the City over the revenue budget by \$158,458. A total of \$1,966,438 was budgeted for expenses, and actual expenditures totaled \$1,999,202 at the end of 2015. The City was under budget on the expenses by \$32,764, as detailed above.

**CAPITAL ASSETS**

As discussed in Table A-6, the City has a total of \$26,803,660 invested in a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, infrastructure assets, and water and sewer lines. This amount represents a 0.6 percent decrease from last year's total investment of \$26,955,163.

The major capital additions in the governmental activities were a fire truck engine \$23,535, fire department equipment for \$4,400, sidewalks for \$21,027 and two police cruisers for \$65,830. The business-type activities major capital additions were various water and sewer equipment for \$20,686.

**Table A-6**

**Capital Assets at Year End Without Depreciation**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>
Land & Improvements	\$1,481,869	\$1,457,872	\$ -	\$ -	\$ 1,481,869	\$ 1,457,872
Construction in Progress	4,000	4,000	129,886	18,000	133,886	22,000
Buildings & Improvements	984,480	1,133,688	-	-	984,480	1,133,688
Vehicles & Equipment	870,797	825,775	-	-	870,797	825,775
Water & Sewer System	-	-	23,332,628	23,515,828	23,332,628	23,515,828
<b>Total Capital Assets</b>	<b>\$3,341,146</b>	<b>\$3,421,335</b>	<b>\$ 23,462,514</b>	<b>\$23,533,828</b>	<b>\$ 26,803,660</b>	<b>\$ 26,955,163</b>

**DEBT**

This year the City has \$5,873,779 in debt, a 10.7 percent increase from last year's total of \$5,307,878. The City entered into a lease with Casey County Bank for expenses related to the Casey County Education and Learning Center for \$850,000.

**Table A-7**

**Debt Outstanding at Year End**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014</u>
Note Payable	\$ 968,779	\$ 148,003	\$ -	\$ 17,792	\$ 968,779	\$ 165,795
Revenue Bond Payable	-	-	4,905,000	5,142,083	4,905,000	5,142,083
<b>Total Debt Outstanding</b>	<b>\$ 968,779</b>	<b>\$ 148,003</b>	<b>\$ 4,905,000</b>	<b>\$ 5,159,875</b>	<b>\$ 5,873,779</b>	<b>\$ 5,307,878</b>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected officials consider many factors when setting the fiscal year 2016 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens of the City, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Sharleen Rodgers, City Clerk, at P.O. Box 127, Liberty, KY 42539.



## INDEPENDENT AUDITORS' REPORT

Mayor and the City Council  
City of Liberty  
Liberty, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Liberty, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Kentucky, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 1 through 8 and 34 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Liberty, Kentucky's basic financial statements. The combining nonmajor governmental fund financial statements and the combining statement of water and sewer fund operating revenues and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental fund financial statements and the combining statement of water and sewer fund operating revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements and the combining statement of water and sewer fund operating revenues and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated May 2, 2016, on our consideration of the City of Liberty, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering City of Liberty, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
May 2, 2016

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2015**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets			
Cash	\$ 363,560	\$ 498,856	\$ 862,416
Investments	125,289	701,964	827,253
Receivables, net	76,625	202,570	279,195
Interest receivable	66	3,518	3,584
Other assets	7,725	-	7,725
Grant receivable	-	-	-
Internal balances	(14,811)	14,811	-
Total current assets	<u>558,454</u>	<u>1,421,719</u>	<u>1,980,173</u>
Noncurrent assets			
Restricted assets			
Cash	-	164,250	164,250
Capital assets			
Construction in progress	4,000	129,886	133,886
Land and improvements	757,851	104,272	862,123
Utility systems, net	-	12,798,442	12,798,442
Depreciable buildings, property, and equipment, net	1,479,186	-	1,479,186
Total noncurrent assets	<u>2,241,037</u>	<u>13,196,850</u>	<u>15,437,887</u>
Total assets	<u>2,799,491</u>	<u>14,618,569</u>	<u>17,418,060</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	29,497	58,495	87,992
Defeasance on refunding	-	23,471	23,471
Total assets and deferred outflows of resources	<u>\$ 2,828,988</u>	<u>\$ 14,700,535</u>	<u>\$ 17,529,523</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 11,079	\$ 91,311	\$ 102,390
Accounts payable-construction	-	-	-
Accrued liabilities	11,236	52,130	63,366
Customer deposits	-	154,605	154,605
Accrued interest payable	-	11,754	11,754
Current portion of long-term obligations	79,080	221,250	300,330
Total current liabilities	<u>101,395</u>	<u>531,050</u>	<u>632,445</u>
Noncurrent liabilities			
Noncurrent portion of long-term obligations	889,699	4,683,750	5,573,449
Net pension liability	322,610	639,763	962,373
Total noncurrent liabilities	<u>1,212,309</u>	<u>5,323,513</u>	<u>6,535,822</u>
Total liabilities	<u>1,313,704</u>	<u>5,854,563</u>	<u>7,168,267</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	28,695	56,905	85,600
<b>NET POSITION</b>			
Net investment in capital assets	2,122,258	8,151,071	10,273,329
Restricted for other purposes	315,209	164,250	479,459
Unrestricted	(950,878)	473,746	(477,132)
Total net position	<u>1,486,589</u>	<u>8,789,067</u>	<u>10,275,656</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,828,988</u>	<u>\$ 14,700,535</u>	<u>\$ 17,529,523</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF LIBERTY, KENTUCKY  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 1,367,120	\$ 1,455	\$ 22,623	\$ -	\$ (1,343,042)	\$ -	\$ (1,343,042)
Public safety-Police	361,570	1,345	16,279	36,196	(307,750)	-	(307,750)
Public safety-Fire	156,066	-	-	11,450	(144,616)	-	(144,616)
Street department	144,909	-	47,964	-	(96,945)	-	(96,945)
Interest on long-term debt	11,607	-	-	-	(11,607)	-	(11,607)
Total governmental activities	<u>2,041,272</u>	<u>2,800</u>	<u>86,866</u>	<u>47,646</u>	<u>(1,903,960)</u>	<u>-</u>	<u>(1,903,960)</u>
<b>Business type activities</b>							
Utility	<u>2,997,782</u>	<u>2,645,077</u>	<u>-</u>	<u>3,382</u>	<u>-</u>	<u>(349,323)</u>	<u>(349,323)</u>
Total business-type activities	<u>2,997,782</u>	<u>2,645,077</u>	<u>-</u>	<u>3,382</u>	<u>-</u>	<u>(349,323)</u>	<u>(349,323)</u>
<b>Total primary government</b>	<u>\$ 5,039,054</u>	<u>\$ 2,647,877</u>	<u>\$ 86,866</u>	<u>\$ 51,028</u>	<u>(1,903,960)</u>	<u>(349,323)</u>	<u>(2,253,283)</u>

**General revenues**

Taxes			
Property taxes, levied for general purposes	281,225	-	281,225
Restaurant tax	96,394	-	96,394
License fee			
Franchise	76,016	-	76,016
Insurance premiums	233,844	-	233,844
Permits			
Building	595	-	595
City Stickers	4,917	-	4,917
Fines and forfeitures	1,240	-	1,240
Grants and contributions not restricted to specific programs	2,455	-	2,455
Investment earnings	1,971	17,178	19,149
Management fees	135,000	-	135,000
Miscellaneous	51,207	3,983	55,190
Total general revenues	<u>884,864</u>	<u>21,161</u>	<u>906,025</u>
Gain (loss) on sale of assets	16,916	(5,238)	11,678
Transfers	256,689	(256,689)	-
Total general revenues and transfers	<u>1,158,469</u>	<u>(240,766)</u>	<u>917,703</u>
<b>Change in Net Position</b>	<b>(745,491)</b>	<b>(590,089)</b>	<b>(1,335,580)</b>
Net position-beginning, as restated	<u>2,232,080</u>	<u>9,379,156</u>	<u>11,611,236</u>
<b>NET POSITION-ENDING</b>	<u>\$ 1,486,589</u>	<u>\$ 8,789,067</u>	<u>\$ 10,275,656</u>

The accompanying notes are an integral  
part of the financial statements

**CITY OF LIBERTY, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 248,491	\$ 115,069	\$ 363,560
Investments	68,092	57,197	125,289
Receivables (net)	53,946	22,679	76,625
Interest receivable	66	-	66
Other assets	7,725	-	7,725
Due from other funds	4,495	125,050	129,545
 Total assets	\$ 382,815	\$ 319,995	\$ 702,810
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 11,079	\$ -	\$ 11,079
Accrued liabilities	11,236	-	11,236
Due to other funds	139,570	4,786	144,356
 Total liabilities	161,885	4,786	166,671
 <b>Fund balances</b>			
Nonspendable	7,725	-	7,725
Restricted	-	315,209	315,209
Committed	-	-	-
Unassigned	213,205	-	213,205
 Total fund balances	220,930	315,209	536,139
 Total liabilities and fund balances	\$ 382,815	\$ 319,995	\$ 702,810

Amounts reported for *governmental activities* in the statement of net position are different because

Fund balances represented above	\$ 536,139
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,241,037
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds	802
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds	(1,291,389)
 Net position of governmental activities	 \$ 1,486,589

The accompanying notes are an integral part of the financial statements.

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2015**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 281,225	\$ 96,394	\$ 377,619
Licenses and permits	315,372	-	315,372
Fines and forfeits	1,240	-	1,240
Intergovernmental	89,003	47,964	136,967
Charges for service	2,800	-	2,800
Other revenues	184,093	4,085	188,178
Total revenues	873,733	148,443	1,022,176
<b>EXPENDITURES</b>			
Current			
General government	1,289,437	1,592	1,291,029
Public safety-Police	351,939	-	351,939
Public safety-Fire	114,222	-	114,222
Streets department	66,332	78,577	144,909
Capital outlay	122,941	-	122,941
Debt service	40,831	-	40,831
Total expenditures	1,985,702	80,169	2,065,871
Excess (deficiency) of revenues over expenditures	(1,111,969)	68,274	(1,043,695)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of assets	144,557	-	144,557
Note proceeds	850,000	-	850,000
Bond expense	(13,500)	-	(13,500)
Transfers in (out)	256,689	-	256,689
Total other financing sources and uses	1,237,746	-	1,237,746
<b>Net change in fund balances</b>	125,777	68,274	194,051
Fund balances-beginning	95,153	246,935	342,088
<b>FUND BALANCES-ENDING</b>	\$ 220,930	\$ 315,209	\$ 536,139
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 194,051
less: proceeds from sale of asset			(144,557)
add: capital outlay expenditures capitalized			122,941
add: debt service expenditures			40,831
add: gain on disposal of capital assets			16,916
less: depreciation on governmental activities assets			(124,926)
less: note proceeds			(850,000)
change in net pension liability			10,860
less: interest on long term debt			(11,607)
Change in net position Governmental Activities			\$ (745,491)

The accompanying notes are an integral  
part of the financial statements.

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2015**

	Business-type Activities			2015 Total
	Water & Sewer Fund	Gas Fund	Garbage Fund	
<b>ASSETS</b>				
Current assets				
Cash	\$ 498,856	\$ -	\$ -	\$ 498,856
Investments	54,295	640,536	7,133	701,964
Receivables (net)	107,695	63,980	30,895	202,570
Interest receivable	64	3,454	-	3,518
Grant receivable	-	-	-	-
Due from other funds	12,418	1,393	1,000	14,811
Total current assets	<u>673,328</u>	<u>709,363</u>	<u>39,028</u>	<u>1,421,719</u>
Noncurrent assets				
Restricted assets				
Cash	164,250	-	-	164,250
Capital assets:				
Construction in progress	124,156	5,730	-	129,886
Land	66,872	37,400	-	104,272
Depreciable utility fixed assets	22,329,319	622,955	276,082	23,228,356
Less accumulated depreciation	<u>(9,791,530)</u>	<u>(434,265)</u>	<u>(204,119)</u>	<u>(10,429,914)</u>
Total noncurrent assets	<u>12,893,067</u>	<u>231,820</u>	<u>71,963</u>	<u>13,196,850</u>
Total assets	<u>13,566,395</u>	<u>941,183</u>	<u>110,991</u>	<u>14,618,569</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - pension	27,702	24,519	6,274	58,495
Defeasance on refunding	<u>23,471</u>	<u>-</u>	<u>-</u>	<u>23,471</u>
Total assets and deferred outflows of resources	<u>\$ 13,617,568</u>	<u>\$ 965,702</u>	<u>\$ 117,265</u>	<u>\$ 14,700,535</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 50,385	\$ 29,150	\$ 11,776	\$ 91,311
Accounts payable-construction	-	-	-	-
Accrued liabilities	21,532	26,899	3,699	52,130
Customer deposits	73,404	81,201	-	154,605
Accrued interest payable	11,754	-	-	11,754
Current portion of long-term obligations	<u>221,250</u>	<u>-</u>	<u>-</u>	<u>221,250</u>
Total current liabilities	<u>378,325</u>	<u>137,250</u>	<u>15,475</u>	<u>531,050</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	4,683,750	-	-	4,683,750
Net pension liability	<u>302,979</u>	<u>268,168</u>	<u>68,616</u>	<u>639,763</u>
Total noncurrent liabilities	<u>4,986,729</u>	<u>268,168</u>	<u>68,616</u>	<u>5,323,513</u>
Total liabilities	<u>5,365,054</u>	<u>405,418</u>	<u>84,091</u>	<u>5,854,563</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pension	<u>26,949</u>	<u>23,853</u>	<u>6,103</u>	<u>56,905</u>
<b>NET POSITION</b>				
Net investment in capital assets	7,847,288	231,820	71,963	8,151,071
Restricted for				
Debt service	164,250	-	-	164,250
Unrestricted	<u>214,027</u>	<u>304,611</u>	<u>(44,892)</u>	<u>473,746</u>
Total net position	<u>8,225,565</u>	<u>536,431</u>	<u>27,071</u>	<u>8,789,067</u>
Total liabilities and net position	<u>\$ 13,617,568</u>	<u>\$ 965,702</u>	<u>\$ 117,265</u>	<u>\$ 14,700,535</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2015**

	<b>Business-type Activities</b>			<b>2015 Total</b>
	<b>Water &amp; Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	
<b>Operating revenues</b>				
Charges for services	\$ 1,126,238	\$ 1,142,572	\$ 376,267	\$ 2,645,077
Total operating revenues	<u>1,126,238</u>	<u>1,142,572</u>	<u>376,267</u>	<u>2,645,077</u>
<b>Operating expenses</b>				
Salaries and wages	217,242	195,177	51,423	463,842
Casual labor	10,954	10,646	10,335	31,935
Gas purchases	-	384,503	-	384,503
Payroll taxes	15,911	13,446	3,624	32,981
Retirement	28,002	24,784	6,341	59,127
Uniforms and laundry	7,850	7,250	6,050	21,150
Maintenance and repairs	280,129	38,653	22,902	341,684
Truck expense	-	-	7,499	7,499
Motor fuel	11,290	9,058	15,905	36,253
Office expense and postage	6,090	3,370	2,575	12,035
Legal and professional	27,118	7,421	7,421	41,960
Utilities	104,948	9,826	-	114,774
Insurance	86,867	58,665	33,254	178,786
Dump expense	-	-	114,320	114,320
Sludge hauling	7,222	-	-	7,222
Pretreatment expenses	18,345	-	-	18,345
Management fees	43,000	66,000	26,000	135,000
Other expense	17,702	5,935	2,712	26,349
Depreciation	769,815	14,302	28,056	812,173
Total operating expenses	<u>1,652,485</u>	<u>849,036</u>	<u>338,417</u>	<u>2,839,938</u>
Operating income (loss)	(526,247)	293,536	37,850	(194,861)
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	3,420	13,638	120	17,178
Interest expense	(157,781)	-	(63)	(157,844)
Other revenues	3,983	-	-	3,983
Gain (loss) on sale of capital assets	(5,238)	-	-	(5,238)
Income (loss) before capital contributions and transfers	<u>(681,863)</u>	<u>307,174</u>	<u>37,907</u>	<u>(336,782)</u>
<b>Capital contributions</b>				
Tap fees	500	2,882	-	3,382
Transfers in (out)	255,691	(469,074)	(43,306)	(256,689)
<b>Change in net position</b>	<u>(425,672)</u>	<u>(159,018)</u>	<u>(5,399)</u>	<u>(590,089)</u>
Total net position-beginning, as restated	<u>8,651,237</u>	<u>695,449</u>	<u>32,470</u>	<u>9,379,156</u>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 8,225,565</u>	<u>\$ 536,431</u>	<u>\$ 27,071</u>	<u>\$ 8,789,067</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF LIBERTY, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
for the year ended June 30, 2015**

	Business-type Activities			2015 Total
	Water & Sewer Fund	Gas Fund	Garbage Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,116,846	\$ 1,135,781	\$ 376,885	\$ 2,629,512
Payments to suppliers	(559,117)	(531,638)	(216,007)	(1,306,762)
Payments for interfund services (payment in lieu of taxes)	(43,000)	(66,000)	(26,000)	(135,000)
Payments for employee services and benefits	(284,746)	(246,678)	(77,680)	(609,104)
Net cash provided by operating activities	<u>229,983</u>	<u>291,465</u>	<u>57,198</u>	<u>578,646</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Bond principal payment	(237,085)	-	(17,792)	(254,877)
Capital contributions	500	2,882	-	3,382
Proceeds from bond/loan issuance	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Purchases of capital assets	(120,686)	-	-	(120,686)
Interest paid on capital debt	(157,391)	-	(334)	(157,725)
Net cash (used) by capital and related financing activities	<u>(514,662)</u>	<u>2,882</u>	<u>(18,126)</u>	<u>(529,906)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Net operating transfers in (out)	255,691	(469,074)	(43,306)	(256,689)
Net cash provided (used) by noncapital financing activities	<u>255,691</u>	<u>(469,074)</u>	<u>(43,306)</u>	<u>(256,689)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	3,421	13,361	120	16,902
Net cash provided by investing activities	<u>3,421</u>	<u>13,361</u>	<u>120</u>	<u>16,902</u>
Net increase (decrease) in cash and cash equivalents	(25,567)	(161,366)	(4,114)	(191,047)
Cash and cash equivalents-beginning of the year	742,968	801,902	7,013	1,551,883
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<u>\$ 717,401</u>	<u>\$ 640,536</u>	<u>\$ 2,899</u>	<u>\$ 1,360,836</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (526,247)	\$ 293,536	\$ 37,850	\$ (194,861)
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	769,815	14,302	28,056	812,173
Change in assets and liabilities				
Receivables, net	(9,392)	(6,671)	618	(15,445)
Due from other funds	-	-	-	-
Other assets	6,166	-	-	6,166
Accounts and other payables	2,362	(6,957)	(3,369)	(7,964)
Accrued expenses	(2,523)	6,281	(3,648)	110
Net pension adjustment	(10,198)	(9,026)	(2,309)	(21,533)
Net cash provided by operating activities	<u>\$ 229,983</u>	<u>\$ 291,465</u>	<u>\$ 57,198</u>	<u>\$ 578,646</u>
Supplemental disclosures of cash flow information:				
Noncash capital and related financing activities:				
Payables for capital items, net	<u>\$ (6,156)</u>	<u>\$ (5,730)</u>	<u>\$ -</u>	<u>\$ (11,886)</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Liberty, Kentucky operates under the City Council form of government and provides the following services as authorized by its charter: public safety and public works. The accounting policies of the City of Liberty conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

**A. Reporting Entity**

The financial statements of the City of Liberty, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's scope of public service, and the ability to significantly influence operation, select the governing body, and participate in fiscal management.

The Economic Development Authority of Liberty/Casey County is a joint venture between the City and the Casey County Fiscal Court and is excluded from the City's financial statements.

**B. Basis of Presentation**

The City's financial statements consist of the following:

- Management's discussion and analysis (required supplementary information);
- Basic Financial Statements
  - Government-wide financial statements
  - Fund financial statements
  - Notes to the financial statements

**Government-wide Financial Statements**

The government-wide financial statements include a Statement of Net Position and the Statement of Activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation, continued**

Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following funds are used by the City of Liberty:

Governmental Fund Types

**General Fund** - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

**Cemetery Fund** - A special revenue fund used to account for Glenwood cemetery activities.

**Municipal Road Aid Fund** - A special revenue fund used to account for revenues received from the Commonwealth of Kentucky under the gasoline tax distribution program.

**Restaurant Tax Fund** - A special revenue fund used to account for revenue received for the City's restaurant tax.

**Proprietary Funds**

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Proprietary funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's enterprise operations include the following:

**Water and Sewer Fund** - A proprietary fund used to account for the water and sewer services provided to the residents of the City of Liberty, the operations of which are financed by user charges.

**Gas Fund** - A proprietary fund used to account for the gas services provided to the residents of the City of Liberty, the operations of which are financed by user charges.

**Garbage Fund** - A proprietary fund used to account for the garbage services provided to the residents of the City of Liberty, the operations of which are financed by user charges.

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting, continued**

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

**D. Budgeting**

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

**E. Internal Balances**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "internal balances". Interfund receivables and payables between funds within governmental activities and proprietary activities are eliminated in the Statement of Net Position.

**F. Revenues and Receivables**

Proprietary funds report all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Fund Balances**

Fund balances of the governmental funds are classified as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts constrained for a specific purpose by the City using its highest level of decision making authority. The City Council is the highest level of decision making authority for the City of Liberty. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City has designated the Mayor to carry the intent of the City Council.

*Unassigned* – all other spendable amounts.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 7,725	\$ -	\$ 7,725
Restricted:			
Road surface repairs	-	130,831	130,831
Cemetery fund	-	87,984	87,984
Restaurant tax	-	96,394	96,394
Unassigned	<u>213,205</u>	-	<u>213,205</u>
Total fund balances	<u>\$ 220,930</u>	<u>\$ 315,209</u>	<u>\$ 536,139</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital Assets**

Under GASB 34, the City of Liberty has elected to not report major infrastructure retroactively. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	20-40 years
Buildings	25-40 years
Improvements	10-20 years
Vehicles, furniture and equipment	5-10 years

**I. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**L. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**J. Other Accounting Policies**

General fixed asset purchases are recorded as expenditures in the general fund and special revenue funds at the time of purchase. Such assets are capitalized at cost in the general fixed assets group of accounts. Certain improvements including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems acquired or constructed before July 1, 2003 have not been capitalized. Infrastructure assets acquired or constructed after July 1, 2003 have been capitalized as permitted by GASB 34.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Liberty.

Certificates of deposit are carried at cost, which approximates fair value. All other investments are carried at fair value based on quoted market prices.

All restricted and unrestricted cash and investments are considered cash for purposes of the Statement of Cash Flows.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through May 2, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2015, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency.

The City has a formal investment policy, stating that the provisions of KRS 66.480 will be adhered to in order to reduce exposure to the following risks:

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015 the City held investments in the following municipal and corporate bonds. Bond ratings were not available for disclosure.

**Municipal Bonds**

Clark County Nevada Las Vegas Convention  
Illinois Municipal Electric Agency Power Supply System  
Illinois State GO Pension  
Massachusetts Health and Education Northeast University  
Minnesota Financial School Loan Revolving Fund  
Walnut California Energy Center

**Corporate Bonds**

Citigroup Inc Global Sub Note  
Citigroup Inc Senior Note

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**2. CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The City of Liberty's deposits and investments were substantially covered by federal depository insurance, the Securities Investor Protection Corporation, or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$1,853,919 and the bank balances totaled \$2,008,442. As of June 30, 2015 \$1,860,598 was held as collateral by the custodial banks in the City's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

The City's investments at June 30, 2015, are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
		<u>1 year or less</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of deposit	\$ 625,427	\$ -	\$ 625,427	\$ -	\$ -
Money market funds	1,786	1,786	-	-	-
Mutual funds	91,901	91,901	-	-	-
Municipal bonds	102,910	-	51,961	22,639	28,310
Corporate bonds	5,229	-	5,229	-	-
	<u>\$ 827,253</u>	<u>\$ 93,687</u>	<u>\$ 682,617</u>	<u>\$ 22,639</u>	<u>\$ 28,310</u>

**3. ACCOUNTS RECEIVABLE**

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Governmental Funds Total</b>	
Governmental Funds:				
Taxes	\$ 9,046	\$ 16,898	\$ 25,944	
Licenses, permits, billings	44,118	-	44,118	
Intergovernmental	4,153	5,781	9,934	
Gross receivables	57,317	22,679	79,996	
Less: allowance for uncollectible	(3,371)	-	(3,371)	
Net receivables	<u>\$ 53,946</u>	<u>\$ 22,679</u>	<u>\$ 76,625</u>	
				<b>Business-Type Activities Total</b>
Business-Type Activities:	<b>Water &amp; Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	
Customer	\$ 141,317	\$ 118,844	\$ 53,154	\$ 313,315
Less: allowance for uncollectible	(33,622)	(54,864)	(22,259)	(110,745)
Net receivables	<u>\$ 107,695</u>	<u>\$ 63,980</u>	<u>\$ 30,895</u>	<u>\$ 202,570</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**4. CAPITAL ASSETS**

A summary of capital asset activity during the fiscal year follows:

	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>
<b>Governmental Activities:</b>				
Capital assets not depreciated:				
Land	\$ 757,851	\$ -	\$ -	\$ 757,851
Construction in Progress	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
	<u>761,851</u>	<u>-</u>	<u>-</u>	<u>761,851</u>
Capital assets that are depreciated:				
Land Improvements	\$ 700,021	\$ 23,997	\$ -	\$ 724,018
Buildings and Improvements	1,133,688	-	(149,208)	984,480
Vehicles	695,066	89,366	(50,475)	733,957
Equipment	<u>130,709</u>	<u>9,579</u>	<u>(3,448)</u>	<u>136,840</u>
Totals	<u>2,659,484</u>	<u>122,942</u>	<u>(203,131)</u>	<u>2,579,295</u>
Total Capital Assets	<u>3,421,335</u>	<u>122,942</u>	<u>(203,131)</u>	<u>3,341,146</u>
Less Accumulated Depreciation:				
Land Improvements	130,475	36,142	-	166,617
Buildings and Improvements	380,283	29,538	(31,452)	378,369
Vehicles	482,508	45,144	(42,114)	485,538
Equipment	<u>57,408</u>	<u>14,102</u>	<u>(1,925)</u>	<u>69,585</u>
Totals	<u>1,050,674</u>	<u>124,926</u>	<u>(75,491)</u>	<u>1,100,109</u>
Capital assets, net	<u>\$ 2,370,661</u>	<u>\$ (1,984)</u>	<u>\$ (127,640)</u>	<u>\$ 2,241,037</u>

	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>
<b>Business-Type Activities</b>				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	<u>18,000</u>	<u>111,886</u>	<u>-</u>	<u>129,886</u>
Totals	<u>122,272</u>	<u>111,886</u>	<u>-</u>	<u>234,158</u>
Capital assets that are depreciated:				
Water Plant	\$ 13,635,387	\$ 3,800	\$ (118,551)	13,520,636
Sewer Plant	8,812,813	16,886	(21,016)	8,808,683
Gas Lines & Equipment	687,274	-	(64,319)	622,955
Garbage Equipment	<u>276,082</u>	<u>-</u>	<u>-</u>	<u>276,082</u>
Totals	<u>23,411,556</u>	<u>20,686</u>	<u>(203,886)</u>	<u>23,228,356</u>
Total Capital Assets	<u>23,533,828</u>	<u>132,572</u>	<u>(203,886)</u>	<u>23,462,514</u>
Less Accumulated Depreciation	<u>9,816,389</u>	<u>812,173</u>	<u>(198,648)</u>	<u>10,429,914</u>
Capital Assets, net	<u>\$ 13,717,439</u>	<u>\$ (679,601)</u>	<u>\$ (5,238)</u>	<u>\$ 13,032,600</u>

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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**4. CAPITAL ASSETS (Continued)**

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 65,055
Police	18,027
Fire	<u>41,844</u>
Total Depreciation Expense	<u>\$ 124,926</u>

**5. SHORT - TERM DEBT**

**GOVERNMENTAL ACTIVITIES**

During fiscal year 2015 the City of Liberty entered into a revolving note with Casey County Bank to finance the City's portion of the Casey County Education and Learning Center. The note bears interest at a rate of 2.5% and was paid refinanced with long-term debt during fiscal year 2015.

The following is a summary of changes in general short – term debt for the year ended June 30, 2015:

	July 1, 2014	Additions	Retirements	June 30, 2015
Revolving Note	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ (750,000)</u>	<u>\$ -</u>

**6. LONG - TERM DEBT**

**BUSINESS - TYPE ACTIVITIES**

In February 2013, the Kentucky Bond Corporation issued Series 2013A Revenue Bonds for the City in order to refund all prior outstanding Water and Sewer Fund revenue bonds. This current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$25,293. The deferred amount on refunding is being amortized as a component of interest expense over the life of the new bond issue. The new issue will reduce debt service payments by \$1,962,458 and has a net economic gain of \$731,039. As part of the issuance, the City was required to deposit \$164,250 in a debt service reserve fund managed by the Kentucky Bond Corporation. Beginning January 1, 2039, the reserve funds will be used to reduce the City's monthly payment.

The following is a summary of the revenue bonds outstanding for the year ended June 30, 2015 and 2014:

	Outstanding June 30, 2015	Outstanding June 30, 2014
<b>Revenue Bonds and Loans Payable</b>		
Water and Sewer Fund - \$5,475,000		
Kentucky Bond Corporation – 2013A Series		
due in monthly installments of \$12,917		
to \$21,364 through 2040, Interest at 2.0%-3.4%	<u>\$ 4,905,000</u>	<u>\$ 5,142,083</u>

During 2010, the City entered into a lease-purchase agreement with Branch Banking & Trust (BB&T) for the purchase of a garbage truck. The agreement requires semi-annual payments of \$18,125 over a period of 5 years and the interest rate is fixed at 3.74%. The total cost of the garbage truck was \$163,924 and the net book value at June 30, 2015 was \$68,302. The truck was paid off during the year ending June 30, 2015.

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**6. LONG - TERM DEBT**

**BUSINESS - TYPE ACTIVITIES**

The following is a summary of the changes in long – term debt for the year ended June 30, 2015:

	July 1, 2014	Additions	Retirements	June 30, 2015
W&S Bond 2013A	\$ 5,142,083	\$ -	\$ (237,083)	\$ 4,905,000
Garbage Truck Lease	<u>17,792</u>	<u>-</u>	<u>(17,792)</u>	<u>-</u>
	<u>\$ 5,159,875</u>	<u>\$ -</u>	<u>\$ (254,875)</u>	<u>\$ 4,905,000</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2015, are as follows:

June 30	Principal	Interest	Total
2016	\$ 221,250	\$ 152,058	\$ 373,308
2017	195,000	147,079	342,079
2018	197,083	142,692	339,775
2019	202,083	138,257	340,341
2020	207,083	133,540	340,623
2021-2025	1,101,250	580,909	1,682,159
2026-2030	1,086,667	407,934	1,494,601
2031-2035	948,333	239,049	1,187,382
2036-2040	<u>746,250</u>	<u>79,920</u>	<u>826,170</u>
	<u>\$ 4,905,000</u>	<u>\$ 2,021,438</u>	<u>\$ 6,926,438</u>

The water and sewer fund is in compliance with all significant limitations and restrictions contained in the bond indenture. As of June 30, 2015 the amount reserved for bond principal and interest payments was \$164,250. Additionally, the City has designated \$413,976 as a depreciation reserve.

**GOVERNMENTAL ACTIVITIES**

During fiscal year 2008 the City of Liberty entered into a lease-purchase agreement with Oshkosh Capital for the acquisition of a fire truck. The agreement bears interest at a rate of 4.85% and requires annual payments of \$26,860 over a period of 10 years. The total cost of the fire truck was \$208,925. The obligation is reported as general long-term debt.

As of June 30, 2015 the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
2016	\$ 24,433	\$ 2,427	\$ 26,860
2017	<u>25,618</u>	<u>1,242</u>	<u>26,861</u>
	<u>\$ 50,051</u>	<u>\$ 3,669</u>	<u>\$ 53,721</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**6. LONG - TERM DEBT (Continued)**

**GOVERNMENTAL ACTIVITIES, continued**

During fiscal year 2014 the City of Liberty entered into a note payable with Casey County Bank to finance the purchase of an additional fire truck. The note bears interest at a rate of 3.0% and requires annual payments ranging from \$5,922 to \$7,822. The total cost of the fire truck was \$75,150. The obligation is reported as general long-term debt.

During fiscal year 2015 the City of Liberty entered into a lease with Casey County Bank to pay off the revolving note plus additional expenses related to the Casey County Education and Learning Center. The lease bears interest at 2.5% and has quarterly interest due and semi-annual principal. The obligation is reported as general long-term debt.

The following is a summary of changes in general long – term debt for the year ended June 30, 2015:

	<b>July 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2015</b>
Osh Kosh Capital Lease	\$ 73,353	\$ -	\$ (23,302)	\$ 50,051
Casey County Bank - 2014	74,650	-	(5,922)	68,728
Casey County Bank - 2015	<u>-</u>	<u>850,000</u>	<u>-</u>	<u>850,000</u>
	<u>\$ 148,003</u>	<u>\$ 850,000</u>	<u>\$ (29,224)</u>	<u>\$ 968,779</u>

The following is a summary of debt service requirements as of June 30, 2015:

<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 79,080	\$ 24,382	\$ 103,461
2017	80,305	23,158	103,463
2018	56,083	20,517	76,601
2019	57,518	19,084	76,602
2020	58,989	17,613	76,602
2021-2025	318,358	64,649	383,007
2026-2030	<u>318,446</u>	<u>24,277</u>	<u>342,723</u>
<b>TOTAL</b>	<u>\$ 968,779</u>	<u>\$ 193,680</u>	<u>\$ 1,162,459</u>

**7. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2015 were levied in October 2014 on the assessed valuation of property located in Casey County as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes, are as follows:

<u>Description</u>	<u>Per K.R.S. 134.020</u>
1. Due date for payment of taxes	Upon receipt
2. Face value amount payment dates	Upon receipt to January 31
3. 10% delinquent date	February 1

Vehicle taxes are collected by the County Clerk of Casey County and are due and collected in the birth month of the licensee.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**8. RETIREMENT PLAN**

**CERS**

The City of Liberty is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* – For the year ended June 30, 2015, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.67% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$87,992 for the year ended June 30, 2015, or 100% of the required contribution.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2015, the City reported a liability of \$962,373 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was .03 percent, which was equal to its proportion measured as of June 30, 2013.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**8. RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2015, the City recognized pension expense of \$55,600. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	85,600
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>87,992</u>	<u>-</u>
Total	<u>\$ 87,992</u>	<u>\$ 85,600</u>

The \$87,992 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

**Year ending June 30,**

2016	\$	(21,400)
2017		(21,400)
2018		(21,400)
2019		(21,400)

*Actuarial Assumptions* – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	4.50%, average, including inflation	
Investment rate of return	7.75%, net of Plan investment expense, including inflation	

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005-June 30, 2008.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**8. RETIREMENT PLAN (CONTINUED)**

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

*Discount Rate* – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**8. RETIREMENT PLAN (CONTINUED)**

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount rate		City's proportionate share of net pension liability
1% decrease	6.75%	\$	1,265,449
Current discount rate	7.75%	\$	962,373
1% increase	8.75%	\$	693,211

*Payable to the Pension Plan* – At June 30, 2015, the City reported a payable of \$13,680 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

**9. RISK MANAGEMENT**

The City of Liberty is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

**10. CONCENTRATIONS**

The City has a concentration of revenue in the Water and Sewer Fund and the Gas Fund. One customer generated approximately 54% of the Water and Sewer Fund's service revenue and 49% of the accounts receivable at June 30, 2015. In addition, one industrial company generated approximately 48% of gas service charges and comprised 66% of the accounts receivable balance reported in the Gas Fund at June 30, 2015.

**11. RESTATEMENT OF NET POSITION**

Sick Leave

It is the City's policy to not pay out accrued but unused sick leave upon termination or retirement. During 2015 the City reevaluated sick leave amounts previously accrued and determined that accrual was unnecessary. The City restated beginning net position and fund balance to reflect this change.

Implementation of new accounting standard GASB Statement No. 68

During 2015 the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**11. RESTATEMENT OF NET POSITION (CONTINUED)**

Implementation of new accounting standard GASB Statement No. 68, continued

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position.

Restatements of net position and fund balance are as follows:

	<b>2015</b>
<b><u>Governmental Activities</u></b>	
Net position, at beginning of year	\$ 2,563,663
Sick leave accrual adjustment	1,084
Beginning net pension liability	<u>(332,667)</u>
Net position, at beginning of year, as restated	<u>\$ 2,232,080</u>
<b><u>Business-Type Activities</u></b>	
<b>Water and Sewer</b>	
Net position, at beginning of year	\$ 8,954,446
Sick leave accrual adjustment	9,215
Beginning net pension liability	<u>(312,424)</u>
Net position, at beginning of year, as restated	<u>\$ 8,651,237</u>
<b>Gas</b>	
Net position, at beginning of year	\$ 961,502
Sick leave accrual adjustment	10,474
Beginning net pension liability	<u>(276,527)</u>
Net position, at beginning of year, as restated	<u>\$ 695,449</u>
<b>Garbage</b>	
Net position, at beginning of year	\$ 101,108
Sick leave accrual adjustment	2,117
Beginning net pension liability	<u>(70,755)</u>
Net position, at beginning of year, as restated	<u>\$ 32,470</u>
Total Business-Type Activities	<u>\$ 9,379,156</u>
Total Governmental and Business-Type Activities	<u>\$ 11,611,236</u>
<b><u>General Fund</u></b>	
Net position, at beginning of year	\$ 94,069
Sick leave accrual adjustment	<u>1,084</u>
Net position, at beginning of year, as restated	<u>\$ 95,153</u>

**SUPPLEMENTAL INFORMATION**

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2015**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Taxes</b>				
Property taxes & motor vehicle taxes	\$ 253,000	\$ 265,500	\$ 271,519	\$ 6,019
Payment in lieu of taxes	9,250	9,250	9,706	456
	<u>262,250</u>	<u>274,750</u>	<u>281,225</u>	<u>6,475</u>
<b>Licenses and permits</b>				
City stickers	13,000	4,900	4,917	17
Franchise fees	70,000	69,000	76,016	7,016
Insurance premiums	210,000	231,000	233,844	2,844
Building permits	2,000	600	595	(5)
	<u>295,000</u>	<u>305,500</u>	<u>315,372</u>	<u>9,872</u>
<b>Fines and forfeitures</b>				
Parking Tickets/Arrest Fees	1,600	1,000	1,240	240
	<u>1,600</u>	<u>1,000</u>	<u>1,240</u>	<u>240</u>
<b>Intergovernmental</b>				
Base court revenue	11,000	9,700	9,287	(413)
Police incentive pay	14,500	15,500	16,279	779
Local economic assistance	2,300	2,900	2,455	(445)
Police grant	36,196	36,196	36,196	-
Other grants	10,500	13,000	13,336	336
Fire equipment grant	8,250	8,250	11,450	3,200
	<u>82,746</u>	<u>85,546</u>	<u>89,003</u>	<u>3,457</u>
<b>Charges for service</b>				
Fishing permits	1,200	1,200	1,455	255
Accident reports	1,000	1,400	1,345	(55)
	<u>2,200</u>	<u>2,600</u>	<u>2,800</u>	<u>200</u>
<b>Other revenues</b>				
Interest income	1,200	1,200	1,386	186
Management fees	135,000	135,000	135,000	-
Other revenues	28,500	36,425	47,707	11,282
	<u>164,700</u>	<u>172,625</u>	<u>184,093</u>	<u>11,468</u>
<b>Other Financing Sources</b>				
Transfers in, net	174,000	230,000	256,689	26,689
Sale of asset	140,000	144,500	144,557	57
Note proceeds	-	750,000	850,000	100,000
	<u>-</u>	<u>750,000</u>	<u>850,000</u>	<u>100,000</u>
<b>Total Revenue and Other Financing Sources</b>	<u>\$ 1,122,496</u>	<u>\$ 1,966,521</u>	<u>\$ 2,124,979</u>	<u>\$ 158,458</u>

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2015**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Government</b>				
Salaries	\$ 108,844	\$ 113,000	\$ 111,460	\$ (1,540)
Payroll taxes and employee benefits	31,299	31,900	30,770	(1,130)
KY ASAP grant	10,500	13,000	13,469	469
Planning and zoning expenses	6,000	5,500	5,403	(97)
Professional services	10,000	19,250	18,315	(935)
Utilities	10,000	8,000	8,155	155
Office supplies	3,400	2,500	7,075	4,575
Insurance	23,000	24,200	25,772	1,572
Travel/lodging	4,000	1,000	677	(323)
Lake Liberty expenses	1,000	3,000	5,371	2,371
Postage	1,400	100	729	629
Dues and subscriptions	-	250	250	-
Parks and recreation	30,000	13,000	14,253	1,253
Education center	193,155	1,015,000	1,014,909	(91)
Fireworks	19,000	18,500	18,500	-
Other expenses	22,000	20,710	14,329	(6,381)
	<u>473,598</u>	<u>1,288,910</u>	<u>1,289,437</u>	<u>527</u>
<b>Public Safety - Police</b>				
Salaries	194,400	215,700	198,666	(17,034)
Payroll taxes and employee benefits	72,683	91,250	91,204	(46)
Motor fuels	18,000	16,000	15,001	(999)
Utilities	4,000	4,100	4,140	40
Equipment	8,000	10,100	12,065	1,965
Vehicle repairs	5,000	3,100	2,774	(326)
Uniforms	2,000	2,100	2,100	-
Insurance	23,000	22,000	21,781	(219)
Travel and lodging	-	-	-	-
Miscellaneous	4,500	3,800	4,208	408
	<u>331,583</u>	<u>368,150</u>	<u>351,939</u>	<u>(16,211)</u>
<b>Public Safety - Fire</b>				
Labor	44,400	53,880	54,000	120
Repairs and maintenance	2,000	13,000	13,875	875
Equipment	15,000	13,000	14,051	1,051
Utilities	8,400	9,700	9,827	127
Insurance	8,000	7,500	7,453	(47)
Motor fuel	3,000	3,000	2,812	(188)
Miscellaneous	3,000	10,200	12,204	2,004
	<u>83,800</u>	<u>110,280</u>	<u>114,222</u>	<u>3,942</u>

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2015**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Street Department</b>				
Street repairs	\$ 10,000	\$ 1,000	\$ 955	\$ (45)
Repairs and maintenance	2,000	6,850	6,836	(14)
Utilities	50,000	55,000	53,739	(1,261)
Supplies	1,500	4,600	4,802	202
Insurance	2,300	-	-	-
	<u>65,800</u>	<u>67,450</u>	<u>66,332</u>	<u>(1,118)</u>
<b>Capital Outlay</b>	<u>90,811</u>	<u>96,730</u>	<u>122,941</u>	<u>26,211</u>
<b>Debt Service</b>	<u>35,110</u>	<u>34,918</u>	<u>40,831</u>	<u>5,913</u>
<b>TOTAL EXPENDITURES</b>	<u>1,080,702</u>	<u>1,966,438</u>	<u>1,985,702</u>	<u>19,264</u>
<b>Other Financing Use</b>				
Bond expense	-	-	13,500	13,500
	<u>\$ 1,080,702</u>	<u>\$ 1,966,438</u>	<u>\$ 1,999,202</u>	<u>\$ 32,764</u>

Note 1: The City failed to amend the budget for \$30,000 of expenditures, approved by Council, for repairs to the fire truck.

**CITY OF LIBERTY, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 Last Two Fiscal Years**

	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.03%	0.03%
City's proportionate share of the net pension liability (asset)	\$ 962,373	\$ 1,085,805
City's covered employee payroll	\$ 676,346	\$ 671,150
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	142.29%	161.78%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	61.22%

**Notes:**

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

**CITY OF LIBERTY, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF CONTRIBUTIONS  
Last Three Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required employer contribution	\$ 87,992	\$ 93,431	\$ 80,490
Contributions relative to contractually required employer contribution	<u>\$ 87,992</u>	<u>\$ 93,431</u>	<u>\$ 80,490</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 676,346	\$ 671,150	\$ 637,796
Employer contributions as a percentage of covered-employee payroll	13.01%	13.92%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF LIBERTY, KENTUCKY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2015**

	<u>Cemetery Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Restaurant Tax Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 35,573	\$ -	\$ 79,496	\$ 115,069
Investments	57,197	-	-	57,197
Receivables, net	-	5,781	16,898	22,679
Due from other funds	-	125,050	-	125,050
<b>Total assets</b>	<u>\$ 92,770</u>	<u>\$ 130,831</u>	<u>\$ 96,394</u>	<u>\$ 319,995</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Due to other funds	\$ 4,786	\$ -	\$ -	\$ 4,786
<b>Total liabilities</b>	<u>4,786</u>	<u>-</u>	<u>-</u>	<u>4,786</u>
<b>Fund balance</b>	<u>87,984</u>	<u>130,831</u>	<u>96,394</u>	<u>315,209</u>
<b>Total liabilities and fund balances</b>	<u>\$ 92,770</u>	<u>\$ 130,831</u>	<u>\$ 96,394</u>	<u>\$ 319,995</u>

**CITY OF LIBERTY, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 for the year ended June 30, 2015**

	<u>Cemetery Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Restaurant Tax Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 96,394	\$ 96,394
Intergovernmental	-	47,964	-	47,964
Other revenues	<u>4,085</u>	<u>-</u>	<u>-</u>	<u>4,085</u>
 Total revenues	 <u>4,085</u>	 <u>47,964</u>	 <u>96,394</u>	 <u>148,443</u>
<b>EXPENDITURES</b>				
Current				
General government	1,592	-	-	1,592
Streets department	<u>-</u>	<u>78,577</u>	<u>-</u>	<u>78,577</u>
 Total expenditures	 <u>1,592</u>	 <u>78,577</u>	 <u>-</u>	 <u>80,169</u>
 Excess (deficiency) of revenues over expenditures	 <u>2,493</u>	 <u>(30,613)</u>	 <u>96,394</u>	 <u>68,274</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total other financing sources and uses	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <b>Net change in fund balances</b>	 <u>2,493</u>	 <u>(30,613)</u>	 <u>96,394</u>	 <u>68,274</u>
Fund balances-beginning	<u>85,491</u>	<u>161,444</u>	<u>-</u>	<u>246,935</u>
 <b>Fund balances-ending</b>	 <u>\$ 87,984</u>	 <u>\$ 130,831</u>	 <u>\$ 96,394</u>	 <u>\$ 315,209</u>

**CITY OF LIBERTY, KENTUCKY**  
**COMBINING STATEMENT OF OPERATING REVENUES AND EXPENSES**  
**WATER AND SEWER PROPRIETARY FUND**  
**for the year ended June 30, 2015**

	WATER	SEWER	TOTAL
<b>OPERATING REVENUES</b>			
Charges for service	\$ 802,734	\$ 323,504	\$ 1,126,238
	<u>802,734</u>	<u>323,504</u>	<u>1,126,238</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	183,542	33,700	217,242
Casual labor	5,316	5,638	10,954
Payroll taxes	13,415	2,496	15,911
Retirement	23,478	4,524	28,002
Uniforms and laundry	4,525	3,325	7,850
Maintenance and repairs	206,798	73,331	280,129
Motor fuel	6,118	5,172	11,290
Office expense and postage	3,389	2,701	6,090
Legal and professional	12,396	14,722	27,118
Utilities	53,663	51,285	104,948
Insurance	64,080	22,787	86,867
Sludge hauling	-	7,222	7,222
Pretreatment expenses	-	18,345	18,345
Management fees	32,714	10,286	43,000
Other expense	11,501	6,201	17,702
Amortization	-	-	-
Depreciation	<u>480,779</u>	<u>289,036</u>	<u>769,815</u>
	<u>1,101,714</u>	<u>550,771</u>	<u>1,652,485</u>
<b>OPERATING INCOME</b>	<u>\$ (298,980)</u>	<u>\$ (227,267)</u>	<u>\$ (526,247)</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and the City Council  
City of Liberty  
Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Liberty, Kentucky's basic financial statements and have issued our report thereon dated May 2, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Liberty, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Liberty, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Liberty, Kentucky'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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2015-001).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Liberty, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items (2015-001).

### **City of Liberty, Kentucky's Response to Findings**

City of Liberty, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Liberty, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**RFH**

RFH, PLLC  
May 2, 2016

**CITY OF LIBERTY, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
for the year ended June 30, 2015**

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**#2015-001 – Personnel Pay and Classification Plan**

***Cause:***

KRS 83A.070 requires the City to fix the compensation of city employees in accordance with a personnel and pay classification plan which shall be adopted by ordinance. The City failed to utilize a personnel pay and classification plan during 2015. In addition, the City's written personnel policies appear to be out dated resulting in various personnel related matters noted in the policy to vary from actual practice.

***Effect:***

The City failed to properly comply with KRS 83A.070 and the City has failed to have proper documentation on certain personnel related policies.

***Recommendation:***

We recommend that the City implement a personnel and pay classification plan in accordance with KRS 83A.070. Furthermore, we recommend that the City review current personnel policies and compare the policies to actual practice and update or modify the formal written personnel policy handbook.

***Response:***

The City of Liberty has been working on and will continue updating the personnel policies and procedures. The updated plan will include a pay classification plan. Once the update is approved, the city will follow all policies within the personnel handbook. The city will also strive to have proper documentation on all personnel related policies.