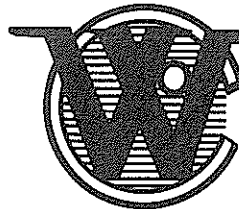


CITY OF WEST LIBERTY, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2020



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

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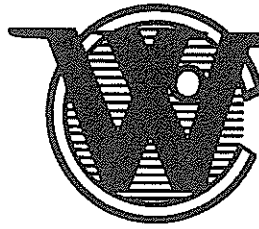
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865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588
Fax (606) 789-3326

INDEPENDENT AUDITOR'S REPORT

The Honorable Mark Walter, Mayor
Members of the City Council
City of West Liberty, Kentucky

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 the City of West Liberty, Kentucky as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of West Liberty, Kentucky'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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 auditor considers 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.

Opinions

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 West Liberty, Kentucky, as of June 30, 2020, 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39-42 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 43 and 44, respectively, and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions, on pages 46 and 47, respectively, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of operating expenses for business-type activities are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of operating expenses for business-type activities are the responsibility of management and were derived from and relates 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 and individual nonmajor fund financial statements and schedule of operating expenses for business-type activities 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 August 17, 2020 on our consideration of the City of West 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 solely 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 the effectiveness of the City of West Liberty's 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 the City of West Liberty, Kentucky's internal control over financial reporting and compliance.

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 17, 2020

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020

3

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 903,411	\$ 613,716	\$ 1,517,127
Certificates of deposit	44,564	-	44,564
Taxes receivable	8,276	-	8,276
Accounts receivable, net	-	256,551	256,551
Grants receivable	2,516	-	2,516
Other receivables	443	-	443
Internal balances	-	-	-
Unbilled revenues	-	110,616	110,616
Inventory	-	86,928	86,928
Capital assets:			
Land and construction-in-progress	302,836	95,914	398,750
Other capital assets, net of accumulated depreciation	2,641,795	14,434,284	17,076,079
Total Assets	3,903,841	15,598,009	19,501,850
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	375,469	381,525	756,994
Deferred outflows related to OPEB	160,517	163,107	323,624
Total deferred outflows of resources	535,986	544,632	1,080,618
LIABILITIES			
Accounts payable	19,676	48,588	68,264
Accrued payroll	20,224	19,571	39,795
Accrued payroll taxes	8,377	8,115	16,492
Accrued vacation	31,866	30,360	62,226
Accrued interest	-	35,037	35,037
Other accrued liabilities	17,009	21,636	38,645
Internal balances	-	-	-
Long-term liabilities:			
Due within one year			
Current portion of long-term debt	48,795	220,589	269,384
Due in more than one year			
Net pension liability	1,714,020	1,741,666	3,455,686
Net OPEB liability	409,809	416,418	826,227
Noncurrent portion of long-term debt	222,718	4,439,075	4,661,793
Total Liabilities	2,492,494	6,981,055	9,473,549
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	38,445	39,065	77,510
Deferred inflows related to OPEB	146,722	149,088	295,810
Total deferred inflows of resources	185,167	188,153	373,320
NET POSITION			
Net investment in capital assets	2,673,118	9,870,534	12,543,652
Restricted for:			
Depreciation	-	134,737	134,737
Fire service	44,744	-	44,744
Highways and streets	55,758	-	55,758
Tourism	193,727	-	193,727
911 dispatch	90,905	-	90,905
Debt service	78,787	119,179	197,966
Unrestricted	(1,374,873)	(1,151,017)	(2,525,890)
Total Net Position	\$ 1,762,166	\$ 8,973,433	\$ 10,735,599
See accompanying notes to basic financial statements.			

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 545,957	\$ -	\$ -	\$ -	\$ (545,957)	\$ -	\$ (545,957)
Public safety	1,263,814	207,505	11,000	159,016	(886,293)	-	(886,293)
Streets	192,940	-	-	107,140	(85,800)	-	(85,800)
Tourism and planning	204,060	-	-	9,082	(194,978)	-	(194,978)
Interest on long-term debt	12,633	-	-	-	(12,633)	-	(12,633)
Total governmental activities	<u>2,219,404</u>	<u>207,505</u>	<u>11,000</u>	<u>275,238</u>	<u>(1,725,661)</u>	<u>-</u>	<u>(1,725,661)</u>
Business-type activities:							
Water, Sewer, Gas	3,622,322	3,055,246	-	5,917	-	(561,159)	(561,159)
Total business-type activities	<u>3,622,322</u>	<u>3,055,246</u>	<u>-</u>	<u>5,917</u>	<u>-</u>	<u>(561,159)</u>	<u>(561,159)</u>
Total primary government	<u>\$ 5,841,726</u>	<u>\$ 3,262,751</u>	<u>\$ 11,000</u>	<u>\$ 281,155</u>	<u>(1,725,661)</u>	<u>(561,159)</u>	<u>(2,286,820)</u>
General revenues:							
Property taxes					195,512	-	195,512
Fire taxes					27,140	-	27,140
Insurance premium taxes					462,658	-	462,658
Occupational taxes and licenses					799,269	-	799,269
Motor vehicle taxes					17,089	-	17,089
Restaurant taxes					223,061	-	223,061
Other taxes					21,329	-	21,329
Licenses and permits					1,600	-	1,600
Administrative					307,422	-	307,422
Intergovernmental revenue					121,077	-	121,077
Interest income					3,629	1,928	5,557
Rental income					21,718	-	21,718
Miscellaneous					39,884	-	39,884
Transfers:					-	-	-
Total general revenues and transfers					<u>2,241,388</u>	<u>1,928</u>	<u>2,243,316</u>
Change in net position					515,727	(559,231)	(43,504)
Net position - beginning of year					<u>1,246,439</u>	<u>9,532,664</u>	<u>10,779,103</u>
Net position - end of year					<u>\$ 1,762,166</u>	<u>\$ 8,973,433</u>	<u>\$ 10,735,599</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

5

	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 483,583	\$ 193,727	\$ 226,101	\$ 903,411
Certificate of deposit	-	-	44,564	44,564
Receivables:				
Grant	-	-	2,516	2,516
Other	443	-	-	443
Total Assets	<u>\$ 484,026</u>	<u>\$ 193,727</u>	<u>\$ 273,181</u>	<u>\$ 950,934</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,205	\$ -	\$ 471	\$ 19,676
Accrued payroll	20,224	-	-	20,224
Accrued payroll taxes	8,377	-	-	8,377
Accrued vacation	31,866	-	-	31,866
Other accrued liabilities	14,493	-	2,516	17,009
Total Liabilities	<u>94,165</u>	<u>-</u>	<u>2,987</u>	<u>97,152</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	78,787	78,787
Public safety	-	-	90,905	90,905
Streets	-	-	55,758	55,758
Tourism	-	193,727	-	193,727
Assigned to:				
Public safety	-	-	44,744	44,744
Unassigned:				
General fund	<u>389,861</u>	<u>-</u>	<u>-</u>	<u>389,861</u>
Total Fund Balances	<u>389,861</u>	<u>193,727</u>	<u>270,194</u>	<u>853,782</u>
Total Liabilities and Fund Balances	<u><u>\$ 484,026</u></u>	<u><u>\$ 193,727</u></u>	<u><u>\$ 273,181</u></u>	<u><u>\$ 950,934</u></u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

6

Fund Balances - Total Governmental Funds \$ 853,782

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Governmental capital assets	7,276,699
Less: accumulated depreciation	(4,332,068)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(271,513)
---	-----------

Interest payable on long-term debt did not require current financial
resources. Therefore, interest payable was not reported as a
liability in Governmental Funds Balance Sheet.

-

Pension & OPEB contributions after measurement date are reported as a deferred outflow of resources.	152,949
---	---------

Net pension & net OPEB liability is not due and payable in the current period and, therefore, is not reported in governmental funds.	(2,123,829)
---	-------------

Pension & OPEB related deferred outflows of resources and deferred inflows
of resources are not due and payable in the current year and, therefore
are not reported in the governmental funds, as follows:

Deferred pension & OPEB outflows of resources	383,037
Deferred pension & OPEB inflows of resources	(185,167)

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Delinquent property taxes	8,276
---------------------------	-------

Net Position of Governmental Activities	\$ 1,762,166
--	---------------------

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

7

	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 195,583	\$ -	\$ -	\$ 195,583
Insurance premium	462,658	-	-	462,658
Occupational taxes and licenses	799,269	-	-	799,269
Motor vehicle	-	-	17,089	17,089
Telecom	12,630	-	-	12,630
Fire	-	-	27,140	27,140
Restaurant	-	223,061	-	223,061
Motel	-	8,699	-	8,699
E-911	63,110	-	-	63,110
Shelter income	-	800	-	800
Wireless collections	-	-	144,395	144,395
Administrative	307,422	-	-	307,422
Licenses and permits	1,600	-	-	1,600
Intergovernmental revenues	6,799	-	125,278	132,077
Rental income	21,718	-	-	21,718
Fines and forfeits	840	-	-	840
Interest income	2,378	72	1,179	3,629
Contributions	11,268	-	-	11,268
Grants	-	9,082	266,156	275,238
Miscellaneous revenues	19,798	1,518	-	21,316
Total revenues	1,905,073	243,232	581,237	2,729,542
Expenditures:				
Current:				
General government	434,952	-	-	434,952
Public safety	947,585	-	46,755	994,340
Streets	61,051	-	46,781	107,832
Tourism and planning	-	166,512	-	166,512
Debt service:				
Principal retirement	-	-	95,810	95,810
Interest	-	-	13,563	13,563
Capital outlay	50,982	-	354,789	405,771
Total expenditures	1,494,570	166,512	557,698	2,218,780
Excess (deficiency) of revenues over expenditures	410,503	76,720	23,539	510,762
Other financing sources (uses):				
Operating transfers in	62,375	-	124,513	186,888
Operating transfers out	(92,672)	-	(94,216)	(186,888)
Proceeds from borrowing	50,982	-	-	50,982
Proceeds from insurance	5,660	-	-	5,660
Total other financing sources (uses)	26,345	-	30,297	56,642
Net change in fund balances	436,848	76,720	53,836	567,404
Fund balances(deficit) - beginning of year	(46,987)	117,007	216,358	286,378
Fund balances - end of year	\$ 389,861	\$ 193,727	\$ 270,194	\$ 853,782

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES
 OF GOVERNMENTAL FUNDS TO THE STATEMENT
 OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020

8

Net Change in Fund Balances - Total Governmental Funds \$ 567,404

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital outlays as expenditures.
 However, on the statement of activities, the cost of those assets
 is allocated over their estimated useful lives as depreciation
 expense:

Capital asset purchases capitalized	405,771
Depreciation expense	(311,944)

The net effect of various miscellaneous transactions involving capital assets:

-

Revenues on the statement of activities that do not provide current
 financial resources are not reported as revenues in governmental funds:

Increase/(decrease) in property taxes	(71)
---------------------------------------	------

Changes in pension & OPEB expense are reported only in the statement of activities.

(191,191)

In the statement of activities, interest is accrued on outstanding long-term
 debt, whereas in the governmental funds interest is not reported until due.
 This amount represents the net change in accrued interest payable.

930

Proceeds of long-term debt are recorded as an other financing source for governmental
 funds but it is not recorded in the statement of activities.

Proceeds of long-term debt are liabilities.

(50,982)

Repayment of principal is an expenditure in the governmental funds, but the
 repayment reduces long-term liabilities on the statement of activities:

Loans payable	95,810
---------------	--------

Change in Net Position of Governmental Activities

\$ 515,727

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
BUSINESS-TYPE ACTIVITY
JUNE 30, 2020

9

	<u>Water, Sewer, Gas</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 359,800
Accounts receivable (net of allowance for doubtful accounts, \$62,749)	256,551
Unbilled receivables	110,616
Inventory	<u>86,928</u>
Total current assets	<u>813,895</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	<u>253,916</u>
Total restricted assets	<u>253,916</u>
Utility Plant:	
Plant in service	29,472,253
Less accumulated depreciation	<u>(14,942,055)</u>
	14,530,198
Construction work in progress	<u>-</u>
Net utility plant	<u>14,530,198</u>
Total assets	<u>15,598,009</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	381,525
Deferred outflows related to OPEB	<u>163,107</u>
Total deferred outflows of resources	<u>544,632</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET POSITION (Continued)
BUSINESS-TYPE ACTIVITY
JUNE 30, 2020

10

	<u>Water, Sewer, Gas</u>
LIABILITIES	
Current liabilities:	
Accounts payable	48,588
Accrued payroll	19,571
Accrued payroll taxes	8,115
Accrued vacation	30,360
Accrued interest payable	35,037
Other accrued liabilities	21,636
Current portion of long-term liabilities	<u>220,589</u>
Total current liabilities	<u>383,896</u>
Long-term liabilities:	
Net pension liability	1,741,666
Net OPEB liability	416,418
Long-term debt	4,667,977
Unamortized discount	<u>(8,313)</u>
	6,817,748
Less current portion	<u>(220,589)</u>
Total long-term liabilities	<u>6,597,159</u>
Total liabilities	<u>6,981,055</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to pensions	39,065
Deferred inflows related to OPEB	<u>149,088</u>
Total deferred inflows of resources	<u>188,153</u>
NET POSITION:	
Net investment in capital assets	9,870,534
Restricted for:	
Debt service	119,179
Depreciation	134,737
Unrestricted	<u>(1,151,017)</u>
Total net position	<u>\$ 8,973,433</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 BUSINESS-TYPE ACTIVITY
 YEAR ENDED JUNE 30, 2020

11

	<u>Water, Sewer, Gas</u>
Operating revenues:	
Sewer revenues	\$ 1,020,633
Water revenues	1,247,736
Gas revenues	699,912
Other operating revenues	<u>86,965</u>
Total operating revenues	3,055,246
Cost of sales - gas purchases	<u>340,192</u>
Net operating revenues	<u>2,715,054</u>
Operating expenses:	
Sewer	1,222,426
Water	1,543,087
Gas	<u>387,896</u>
Total operating expenses	<u>3,153,409</u>
Utility operating income (loss)	<u>(438,355)</u>
Non-operating revenues (expenses):	
Interest income	1,928
Interest expense	<u>(128,721)</u>
Total non-operating revenues (expenses)	<u>(126,793)</u>
Net income (loss) before contributions from (to)	(565,148)
Contributions in aid of construction	<u>5,917</u>
Change in net position	(559,231)
Net position, beginning of year	<u>9,532,664</u>
Net position, end of year	<u><u>\$ 8,973,433</u></u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2020

12

	<u>Water, Sewer, Gas</u>
Cash flows from operating activities:	
Cash inflows:	
Payments received from customers	\$ 3,043,563
Total cash provided	<u>3,043,563</u>
Cash outflows:	
Payments for salaries and benefits	979,814
Payments to suppliers for goods and services	<u>1,596,975</u>
Total cash used	<u>2,576,789</u>
Net cash provided (used) by operating activities	<u>466,774</u>
Cash flows from noncapital financing activities:	
Advances to other funds	25,000
Advances from other funds	<u>(37,562)</u>
Net cash provided (used) by noncapital financing activities	<u>(12,562)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(155,798)
Capital contributions received	43,414
Proceeds from issuance of debt	1,875,000
Proceeds from loan	39,050
Principal payments on debt	(1,972,442)
Interest paid on long-term debt	<u>(122,546)</u>
Net cash provided (used) by capital and related financing activities	<u>(293,322)</u>
Cash flows from investing activities:	
Interest received	<u>1,928</u>
Net cash provided (used) by investing activities	<u>1,928</u>
Net cash inflow (outflow) from all activities	162,818
Cash and cash equivalents at beginning of period	<u>450,898</u>
Cash and cash equivalents at end of period	<u>\$ 613,716</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS (Continued)
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2020

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Water, Sewer, Gas

Reconciliation of utility operating income to
net cash provided by operating activities:

Utility operating income	\$ (438,355)
Depreciation	699,866
(Increase) decrease in:	
Accounts receivable	(6,265)
Unbilled revenue	(5,418)
Inventory	5,994
Deferred outflows of resources	(118,464)
Increase (decrease) in:	
Accounts payable	(15,933)
Accrued liabilities and other liabilities	7,103
Net pension & net OPEB liability	282,073
Deferred inflows of resources	56,173

Net cash provided (used) by operating activities

\$ 466,774

Schedule of cash:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 227,624
Restricted cash and cash equivalents	223,274

\$ 450,898

End of period:

Unrestricted cash and cash equivalents	\$ 359,800
Restricted cash and cash equivalents	253,916

\$ 613,716

See accompanying notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of West Liberty, Kentucky (the City) was established in 1840. The City operates under Council-Mayor form of government and provides the following service as authorized by its charter: public safety, highway and street, public works, recreation, community development, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). As permitted by generally accepted accounting principals, the City's Proprietary Funds has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of West Liberty's only such entity included in the financial statements, as a blended component unit, is the City of West Liberty Public Properties Corporation.

The City of West Liberty Public Properties Corporation (the Corporation) was established as a nonprofit corporation pursuant to a resolution of the City Council to act as an agency and instrumentality of the City. The purpose of the corporation was to finance the cost of construction of the City Hall building which is leased to the General Fund of the City. The Corporation financed the costs related to the project by issuance of \$448,000 first mortgage revenue bonds dated January 16, 1991 and demand notes totaling \$94,956 at the Commercial Bank of West Liberty. The City has agreed to lease the facilities from the Corporation with minimum annual rentals equal to the funding requirements of the bonds and notes. As of June 30, 2020, the bonds and notes have been fully paid. Therefore, no amounts are shown for rent relating to the lease of the City Hall building. The General Fund has the option each year to renew the lease.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not property included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

General Fund –

The General Fund is the main operating fund of the City and always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund –

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Municipal Road Aid Fund –

The Municipal Road Aid Fund is used to account for the revenues received and expenditures paid for construction, reconstruction, and maintenance of city streets.

Tourism and Planning Commission Fund –

The Tourism and Planning Commission Fund is used to account for the restaurant tax and shelter income and the related expenditures. The Tourism and Planning Commission Fund is considered a major fund for government-wide reporting purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CMRS Fund –

The CMRS Fund is used to account for wireless collections and the related expenditures paid for 911 dispatch.

Fire Tax Fund –

The Fire Tax Fund is used to account for fire tax collections and the related expenditures.

Police Incentive Fund –

The Police Incentive Fund is used to account for funds received from the Kentucky Law Enforcement Foundation Program and the related expenditures.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net assets, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water, Sewer, and Gas Fund –

The Water, Sewer, and Gas Fund is used to account for the provision of water, sewer, and gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water, sewer, and gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water, sewer, and gas debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, charges for service, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

D. Budgetary Control

The City follows the procedures established pursuant to Section 91 A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on the same basis of accounting as used in the financial statements.

Budgeted amounts in the financial statements are as amended and adopted by ordinance of the City.

Kentucky Revised Statute 91A.030 prohibits and nullifies any expenditure in excess of budgeted amounts. Certain actual expenditures exceeded budgeted amounts.

E. Cash and Investments

Cash includes amounts in bank accounts. The only investments include certificates of deposit. The investments are reported at cost which reasonably estimates fair value.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventory of Supplies

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory of the utility funds consists of materials and supplies.

H. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Bond Discounts

Bond discounts are being amortized over the life of the bonds using the effective interest method.

J. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,500 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water, Sewer, and Gas System	10-50 Years
Infrastructure	10-35 Years
Machinery and Equipment	3-10 Years
Improvements	15 Years

K. Compensated Absences

The City of West Liberty's policy allows full-time employees to earn vacation leave and sick leave. Employees earn ten (10) days of vacation after each year of employment. After ten years of employment, employees earn fifteen (15) days of vacation per year. Any accumulated vacation will be paid to an employee upon termination.

Employees earn one (1) day of sick leave for each month worked and there is no limit on the number of days that can accumulate. Accumulated sick leave will not be paid to an employee upon termination.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Interest Payable

In the Government-wide financial statements, interest payable on general long-term debt is recognized as the liability is incurred.

In the fund financial statements, governmental fund types recognize interest expenditures when due and payable.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accounts Receivable

Accounts receivable is stated net of an allowance for doubtful accounts. The allowance is based upon historical trends and the periodic aging of accounts receivable.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the City imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner.

Assigned – resources neither restricted nor committed for which the City has a stated intended use as established by the City Council.

Unassigned – resources which cannot be properly classified in one of the other four categories.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Likewise, fund balances that are committed or assigned would be used first for their approved purposes. Unassigned fund balances would be used as needed.

Q. Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

R. Unbilled Receivables

The City's Utility Department reads meters to measure customer consumption of sewer and water in the middle of the month. Estimates for unbilled receivable were based on consumption for the meter reading period immediately following the year end. This usage was prorated for the number of days within the fiscal year and multiplied by the appropriate rates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Deferred Outflows/Inflows Of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has deferred outflows of resources that relate to pension plan and OPEB reporting, see notes 11 and 12.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has deferred inflows of resources that relate to pension plan and OPEB reporting, see notes 11 and 12.

T. Pensions & OPEB

For purposes of measuring the net pension and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employee's 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 the benefit terms. Investments are reported at fair value.

NOTE 2. DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U. S. Treasury and U. S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local banks in the form of certificates of deposits, savings accounts, and money market accounts. This investment call subjects the City to custodial credit risk; however, the City considers this risk immaterial, and as such, the City does not have a formal investment policy to deal with such risk.

The City of West Liberty, Kentucky, categorizes deposits at local financial institutions to give an indication of the level of risk assumed by the City at fiscal year end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2020 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$1,572,573</u>	<u>\$348,534</u>	<u>\$1,224,039</u>	<u>\$ -</u>	<u>\$1,561,691</u>

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The City's deposits and investments are also subject to risks such as interest rate risk and concentration of credit risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a deposit or investment. Deposits and investments held for longer periods are subject to increased risk of adverse interest rate changes. The City has attempted to address this risk by maintaining its deposits in accounts that continually adjust the interest rate to the market. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City has addressed this risk by maintaining its deposits at financial institutions that are insured by the FDIC and by requiring additional collateral to cover deposits in excess of that amount.

NOTE 3. PROPERTY TAXES

Property taxes for fiscal year 2019 were levied on \$287,531,136 the assessed valuation of property and bank deposits located in Morgan County as of the preceding January 1, the lien date. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided. A reserve for uncollectible property taxes is recorded for the amount uncollected at year end. The due date and collection periods for property taxes are as follows:

<u>Description</u>	<u>Per K.R.S. 134.020</u>
Due date for payment of taxes	Upon Receipt
Discount of 2%	Receipt to October 31
Face value amount payment dates	November 1 to November 30
Tax balance plus 2% penalty	December 1 to December 31
Tax balance plus 10% penalty	January 1

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, consisted of the following:

Governmental Activities

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 302,836	\$ -	\$ -	\$ 302,836
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>302,836</u>	<u>-</u>	<u>-</u>	<u>302,836</u>
Capital assets, being depreciated:				
Buildings and improvements	1,435,923	-	-	1,435,923
Improvements other than buildings	1,359,211	-	-	1,359,211
Infrastructure	1,171,918	160,134	-	1,332,052
Automobiles and trucks	737,865	50,982	-	788,847
Machinery and equipment	<u>1,863,175</u>	<u>194,655</u>	<u>-</u>	<u>2,057,830</u>
Total capital assets being depreciated	<u>6,568,092</u>	<u>405,771</u>	<u>-</u>	<u>6,973,863</u>

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 4. CAPITAL ASSETS (Continued)

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
Less accumulated depreciation for:				
Buildings and improvements	(428,332)	(30,593)	-	(458,925)
Improvements other than buildings	(714,126)	(58,684)	-	(772,810)
Infrastructure	(813,565)	(80,343)	-	(893,908)
Automobiles and trucks	(542,837)	(60,975)	-	(603,812)
Machinery and equipment	(1,521,264)	(81,349)	-	(1,602,613)
Total accumulated depreciation	(4,020,124)	(311,944)	-	(4,332,068)
Total capital assets being depreciated, net	2,547,968	93,827	-	2,641,795
Governmental activities capital assets, net	\$2,850,804	\$ 93,827	\$ -	\$2,944,631

Depreciation was charged to governmental functions as follows:

General government	\$ 57,472
Public safety	131,816
Tourism and planning	37,548
Streets	85,108
Total	\$ 311,944

Business-Type Activities

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
Capital assets, not being depreciated:				
Land and land improvements	\$ 82,914	\$ 13,000	\$ -	\$ 95,914
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	82,914	13,000	-	95,914
Capital assets, being depreciated:				
Leasehold improvements	1,000	-	-	1,000
Machinery and equipment	1,007,317	69,402	-	1,076,719
Water plant and water system	12,643,572	-	-	12,643,572
Sewer plant and sewer system	14,483,458	73,396	-	14,556,854
Gas system	1,098,194	-	-	1,098,194
Total capital assets being depreciated	29,233,541	142,798	-	29,376,339
Less accumulated depreciation for:				
Leasehold improvements	(876)	(31)	-	(907)
Machinery and equipment	(851,144)	(43,217)	-	(894,361)
Water plant and water system	(6,354,048)	(297,167)	-	(6,651,215)

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 4. CAPITAL ASSETS (Continued)

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
Sewer plant and sewer system	(6,853,482)	(333,897)	-	(7,187,379)
Gas system	(182,639)	(25,554)	-	(208,193)
Total accumulated depreciation	(14,242,189)	(699,866)	-	(14,942,055)
Total capital assets being depreciated, net	14,991,352	(557,068)	-	14,434,284
Total utilities capital assets, net	\$15,074,266	\$ (544,068)	\$ -	\$14,530,198

NOTE 5: LONG-TERM DEBT

Business –Type Activities:

The Water, Sewer, and Gas Proprietary Fund presently has seven revenue bond issues outstanding. The City issues revenue bonds for the acquisition and construction of major capital facilities.

- 1) 2001 Series (A) - \$1,000,000 Water and Sewer revenue bonds, maturing through November 1, 2041, with interest at 3.25%.
- 2) 2010 Series - \$740,000 Gas revenue bonds, maturing through February 1, 2040, with interest at variable rates.
- 3) 2019 Series (C) - \$1,875,000 Water and Sewer revenue bond, maturing through February 1, 2044, with interest at variable rates.

Principal payments are due annually for 2001 Series (A) bond on November 1, and interest payments are due semi-annually on May 1, and November 1. Principal payments are due annually for 2010 Series and 2019 Series (C) bonds on February 1 and interest payments are due semi-annually on February 1, and August 1.

Total bond interest expense for the year ended June 30, 2020, amounted to \$114,044.

The Water, Sewer, and Gas Proprietary Fund notes payable at June 30, 2020 consisted of the following:

On November 5, 2012, the City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the West Liberty water system improvements project (F11-04). The total loan assistance to the City was \$928,369. The loan is payable in semi-annual installments of \$25,665 including interest of 1.0%. Final payment is due June 1, 2035.

On November 5, 2012, the City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the West Liberty Route 7 sewer improvements project and the Liberty Road sewer extension project (A11-11). The total loan assistance to the City was \$925,873. The loan is payable in semi-annual installments of \$25,596 including interest of 1.0%. Final payment is due December 1, 2035.

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 5. LONG-TERM DEBT (Continued)

On November 6, 2019, the City entered into a lease agreement for \$1,875,000 with the Kentucky Bond Corporation in conjunction with the Series 2019C bond issue for the refunding of called Series 1988, 1998, 2001B, 2006, and 2007 water and sewer revenue bonds. The term of the lease is 25 years with monthly payments of principal and interest made into a sinking fund with the Bank of New York. Principal payments from the sinking fund are due February 1 and interest payments from the sinking fund are due semi-annually on February 1, and August 1.

On April 30, 2020, the City borrowed \$39,050 at 3.30% interest from Magnolia Bank for the purchase of an excavator. The agreement provides for 48 monthly payments of \$869 to be made beginning May 29, 2020 with final payment due on April 29, 2024.

Changes in long-term obligations for the year ended June 30, 2020, are as follows:

<u>Business – type Activities</u>	<u>Balance 6/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2020</u>	<u>Due Within One Year</u>
Bond payable – 1988 issue	\$ 265,000	\$ -	\$ (265,000)	\$ -	\$ -
Bond payable – 1998 issue	341,000	-	(341,000)	-	-
Bond payable – 2001 issue (A)	740,000	-	(22,000)	718,000	23,000
Bond payable – 2001 issue (B)	219,000	-	(219,000)	-	-
Bond payable – 2006 issue	679,500	-	(679,500)	-	-
Bond payable – 2007 issue	338,000	-	(338,000)	-	-
Bond payable – 2010 issue	610,000	-	(20,000)	590,000	20,000
Bond payable – 2019 issue	-	1,875,000	-	1,875,000	80,000
Less: Unamortized bond discount	(8,538)	-	225	(8,313)	-
Note payable – KIA (F11-04)	757,209	-	(43,868)	713,341	44,307
Note payable – KIA (A11-11)	776,885	-	(43,532)	733,353	43,969
Note payable - excavator	-	39,050	(767)	38,283	9,313
Net pension liability	1,452,568	289,098	-	1,741,666	-
Net OPEB liability	423,443	-	(7,025)	416,418	-
Total business-type activities	<u>\$6,594,067</u>	<u>\$2,203,148</u>	<u>\$(1,979,467)</u>	<u>\$6,817,748</u>	<u>\$220,589</u>

The City has pledged future water, sewer, and gas revenues, net of specified operating expenses, to repay these revenue bonds.

Principal and interest payments to be made on all long-term debt at June 30, 2020, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2021	\$ 123,000	\$ 97,589	\$ 220,589	\$ 117,248	\$ 337,837
2022	124,000	98,784	222,784	112,640	335,424
2023	129,000	99,998	228,998	107,946	336,944
2024	130,000	100,362	230,362	103,041	333,403
2025	141,000	91,870	232,870	98,271	331,141

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 5. LONG-TERM DEBT (Continued)

2026-2030	718,000	473,349	1,191,349	413,882	1,605,231
2031-2035	683,000	497,556	1,180,556	282,046	1,462,602
2036-2040	802,000	25,469	827,469	143,143	970,612
2041-2044	<u>333,000</u>	<u>-</u>	<u>333,000</u>	<u>23,868</u>	<u>356,868</u>
	<u>\$3,183,000</u>	<u>\$1,484,977</u>	<u>\$4,667,977</u>	<u>\$1,402,085</u>	<u>\$6,070,062</u>

Governmental Activities:

The City's notes payable at June 30, 2020 consisted of the following:

- 1) On June 11, 2012, the City borrowed \$350,089 at 4.9% interest from Commercial Bank for the construction of the new fire station. The loan was refinanced on February 26, 2013. The loan has an interest rate of 4.20% with a monthly payment of \$2,653 and matures February 26, 2028.
- 2) On April 30, 2018, the City borrowed \$38,896 at 4.40% interest from Magnolia Bank for the purchase of a Ford Explorer police cruiser. The agreement provides for 48 monthly payments of \$887 to be made beginning June 20, 2018 with final payment due on May 20, 2022.
- 3) On March 25, 2020, the City borrowed \$50,982 at 3.44% interest from Magnolia Bank for the purchase of a Ford Explorer police cruiser. The agreement provides for 36 monthly payments of \$1492 to be made beginning April 20, 2020 with final payment due on March 20, 2023.

Changes in long-term obligations for the year ended June 30, 2020, are as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2020</u>	<u>Due Within</u> <u>One Year</u>
Bond payable – series A	\$ 23,000	\$ -	\$ (23,000)	\$ -	\$ -
Bond payable – series B	8,000	-	(8,000)	-	-
Note payable – police cruisers	12,734	-	(12,734)	-	-
Note payable – police cruisers	14,468	-	(14,468)	-	-
Note payable – police cruiser	29,098	-	(9,559)	19,539	9,989
Note payable – police cruiser	-	50,982	(5,428)	45,554	15,191
Note payable – fire station	229,041	-	(22,621)	206,420	23,615
Net pension liability	1,452,568	261,452	-	1,714,020	-
Net OPEB liability	<u>423,443</u>	<u>-</u>	<u>(13,634)</u>	<u>409,809</u>	<u>-</u>
Total governmental activities	<u>\$2,192,352</u>	<u>\$ 312,434</u>	<u>\$(109,444)</u>	<u>\$2,395,342</u>	<u>\$ 48,795</u>

Repayment of principal and interest maturities is principally made from various taxes collected. Also, for governmental activities, the pension obligations and other post-employment benefit obligations are generally liquidated by the general fund.

Principal and interest payments to be made on all long-term debt at June 30, 2020, for each of the next five years and thereafter are as follows:

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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NOTE 5. LONG-TERM DEBT (Continued)

<u>Year Ending</u> <u>6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 48,795	\$ 48,795	\$ 10,102	\$ 58,897
2022	-	51,304	51,304	8,198	59,502
2023	-	38,917	38,917	6,346	45,263
2024	-	26,767	26,767	5,069	31,836
2025	-	27,927	27,927	3,910	31,837
2026-2028	-	77,803	77,803	4,440	82,243
	<u>\$ -</u>	<u>\$271,513</u>	<u>\$ 271,513</u>	<u>\$ 38,065</u>	<u>\$ 309,578</u>

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2020 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and CD's.

NOTE 6 – INTERFUND TRANSFERS AND RECEIVABLES

The following is a schedule of interfund transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	CMRS Fund	Reimbursement	\$ 62,375
Debt Service Fund	General Fund	Debt Service	92,672
	Fire Tax Fund	Debt Service	31,841
Subtotal – Fund Financial Statements			186,888
Less: Fund Eliminations			(186,888)
Total Transfers – Government-wide Statement of Activities			<u>\$ -</u>

NOTE 7 – RESTRICTIONS ON CASH

Sinking Reserve Funds for Bond Retirement

"Bond Sinking Funds" and "Debt Service Reserve Funds" are being maintained as required in various bond documents. Deposits into Bond Sinking Funds are made monthly in order to accumulate funds for payment of bond principal and interest. A Debt Service Reserve Fund is required for the purpose of having monies available in order to prevent a default in the payment of the principal or interest.

Proprietary Funds Bond Sinking Funds in the amount of \$79,784 is being held by the Bank of New York in an interest bearing account.

NOTE 7 – RESTRICTIONS ON CASH (Continued)

Proprietary Funds Debt Service Reserve Fund in the amount of \$20,646 is being held in an interest bearing account at the Commercial Bank of West Liberty.

Reserve for Depreciation

"Depreciation Funds" are being maintained as required in various bond documents. These Proprietary Funds are required to be deposited into separate accounts for the purpose of maintaining the water and sewer systems. Certificates of Deposit have also been purchased for water and sewer depreciation reserves. The total amounts deposited in these accounts for Water Depreciation, for Waste Water Depreciation, and Gas Depreciation is \$134,737.

NOTE 8 – RISK MANAGEMENT

The City 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. The City pays annual premiums to the Kentucky League of Cities Insurance Agency for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the City. Kentucky League of Cities Insurance Agency pays claims as they arise. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation

The City is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Administration officials and legal council do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in process.

NOTE 10 – SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through August 17, 2020, the date the financial statements were available to be issued.

NOTE 11 – DEFINED PENSION

General Information about the Pension Plan

Plan Description

Employees of the City of West Liberty, Kentucky are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the County Employee's Retirement System. Section 61.645 of the Kentucky Revised Statutes grants to CERS Board of Trustees and the Kentucky Legislature the authority to review administration, benefit terms, investments, and funding of the plan. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. CERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

NOTE 11 – DEFINED PENSION (Continued)

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's spouse will receive the higher of the normal death benefit or \$10,000 plus 75% of the decedent's monthly average pay until the spouse's death or remarriage. If surviving spouse remarries, the monthly payment shall be recalculated to 25% of the deceased member's monthly average pay. Each eligible dependent child will receive a monthly benefit equal to 50% of the decedent's monthly average pay. The amount increases to 65% if the decedent has two (2) dependent children; and 75% if three (3) or more children. Payments will be divided equally among all the dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions

Per State Statutes, contribution requirements of the active employees are established and may be amended by the CERS Board. Employees hired before 9/1/08 are required to contribute 5.00 percent of their annual pay and employees hired after 9/1/08 are required to contribute 6.00 percent of their annual pay. The City's contractually required contribution rate for the year ended June 30, 2020, was 19.30 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$247,358 for the year ended June 30, 2020.

NOTE 11 – DEFINED PENSION (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the City reported a liability of \$3,455,686 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 employers, actuarially determined. At June 30, 2019, the City's proportion was 0.049 percent, which was an increase of 0.001 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$636,198. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 88,234	\$ 14,601
Changes of assumptions	349,755	-
Net difference between projected and actual earnings on pension plan investments	-	55,707
Changes in proportion and differences between City contributions and proportionate share of contributions	71,647	7,202
City contributions subsequent to the measurement date	<u>247,358</u>	<u>-</u>
Total	<u>\$ 756,994</u>	<u>\$ 77,510</u>

\$247,358 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ 273,096
2022	109,974
2023	45,103
2024	3,953
2025	-
Thereafter	-

NOTE 11 – DEFINED PENSION (Continued)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2019 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

NOTE 11 – DEFINED PENSION (Continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the Employer'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 using the discount rate of 6.25%, 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 one percentage-point lower (5.25%) or one percentage-point higher (7.25%) than the current rate:

	<u>1.0% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1.0% Increase (7.25%)</u>
City's proportionate share of the net pension liability	\$4,322,084	\$3,455,686	\$2,733,553

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2019 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2020, the City reported a payable of \$28,955 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.

NOTE 12 – OPEB PLAN

General Information about the OPEB plan

Plan Description and Benefits Provided

The City of West Liberty, Kentucky participates in the County Employees Retirement System (CERS) Insurance Fund, a multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan for members that cover all regular full-time members employed by the City. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

NOTE 12 – OPEB PLAN (Continued)

Contributions

The City's contractually required contribution rate for the year ended June 30, 2020, was 4.76 percent of covered payroll. Contributions to the OPEB plan from the City were \$61,007 for the year ended June 30, 2020.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the City reported a liability of \$826,227 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the City's proportion was 0.049 percent, which was an increase of 0.001 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized OPEB expense of \$92,056. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 249,292
Changes of assumptions	244,488	1,635
Net difference between projected and actual earnings On OPEB plan investments	-	36,698
Changes in proportion and differences between City contributions and proportionate share of contributions	18,129	8,185
City contributions subsequent to the measurement date	<u>61,007</u>	<u>-</u>
Total	<u>\$ 323,624</u>	<u>\$ 295,810</u>

\$61,007 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

NOTE 12 – OPEB PLAN (Continued)

Year ended June 30:

2021	\$(4,712)
2022	(4,712)
2023	6,956
2024	(15,398)
2025	(13,388)
Thereafter	(1,939)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2019 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

NOTE 12 – OPEB PLAN (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.0% Increase</u>
City's proportionate share of the net OPEB liability	\$614,469	\$826,227	\$1,083,008

Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

NOTE 12 – OPEB PLAN (Continued)

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

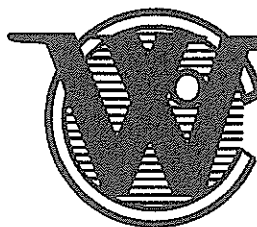
The following presents the City's proportionate share of the Net OPEB Liability using the discount rate of 5.68%, as well as what the City's proportionate share of the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower (4.68%) or one percentage-point higher (6.68%) than the current rate:

	<u>1.0% Decrease (4.68%)</u>	<u>Current Discount Rate (5.68%)</u>	<u>1.0% Increase (6.68%)</u>
City's proportionate share of the net OPEB liability	\$1,106,804	\$826,227	\$595,050

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2019 Comprehensive Annual Financial Report at kyret.ky.gov.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

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

The Honorable Mark Walter, Mayor
Members of the City Commission
City of West 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 West Liberty, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of West Liberty, Kentucky's basic financial statements and have issued our report thereon dated August 17, 2020, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of West 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 West Liberty, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in 2020-001 and 2020-002 below, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in 2020-001 to be a material weakness.

2020-001 Segregation of Duties

Condition: Presently, the City has an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The City should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Recommendation: Mayor and City Council should continue their strong oversight.

Management Comment: Management of the City concurs with the finding and will continue strong oversight.

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. We consider the deficiency described in 2020-002 to be a significant deficiency.

2020-002 Financial Reporting

Condition: There is a lack of adequate controls in financial accounting and reporting to properly prepare financial statements and disclosures according to generally accepted accounting principles.

Criteria: The Statement on Auditing Standards cites a significant deficiency if an entity is unable to prepare its own financial statements in accordance with Generally Accepted Accounting Principles (GAAP) including the disclosure notes.

Cause of Condition: The City's limited budget prevents the hiring of an individual with the accounting skills to properly prepare financial statements with disclosures.

Recommendation: The management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Comment: Management of the City concurs with the finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West 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 2020-003 below.

2020-003 Failure to Meet Debt Covenant Reserve Requirements

Condition: At June 30, 2020, the City's water and sewer fund depreciation reserve and operation & maintenance reserve were both underfunded causing the City to not be in compliance with debt covenants. The depreciation reserve was underfunded by \$6,454 and the operations & maintenance reserve was underfunded by \$121,381.

Criteria: Per debt covenants, the City is required to maintain minimum balances in reserves.

Cause of Condition: The balances in reserves have been used in the past to operate the water and sewer fund.

Recommendation: We recommend the City to utilize all remedies available to continue to replenish the debt covenant reserves.

Management Comment: The City will continue to work on meeting its obligations and replenishing the reserves as it has been over the past several years.

City of West Liberty, Kentucky's Response to Findings

The City of West Liberty, Kentucky's response to the findings identified in our audit is described above. The City of West 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.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 17, 2020

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

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	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 198,000	\$ 198,000	\$ 195,583	\$ (2,417)
Taxes on insurance premiums	385,000	385,000	462,658	77,658
Occupational taxes and licenses	731,228	731,228	799,269	68,041
E911	67,000	67,000	63,110	(3,890)
Unloading license	1,300	1,300	1,600	300
Law enforcement fees	6,500	6,500	6,799	299
Telecom tax	12,000	12,000	12,630	630
Interest	-	-	2,378	2,378
Rent	20,000	20,000	21,718	1,718
Fines and forfeits	-	-	840	840
Administrative	298,010	298,010	307,422	9,412
Contributions	-	-	11,268	11,268
Grants	-	-	-	-
Other receipts	14,200	14,200	19,798	5,598
Total revenues	1,733,238	1,733,238	1,905,073	171,835
Expenditures:				
General government:				
Health and life insurance	63,000	63,000	72,110	(9,110)
Insurance	47,000	47,000	33,808	13,192
Dues and subscriptions	12,000	12,000	1,072	10,928
Materials and supplies	8,000	8,000	2,496	5,504
Janitorial supplies	250	250	-	250
Mayor and city council fees	14,500	14,500	10,212	4,288
Other expenses	4,500	4,500	12,234	(7,734)
Office expenses	14,000	14,000	7,480	6,520
Professional fees	20,000	20,000	9,675	10,325
Postage	2,000	2,000	2,197	(197)
Repairs and maintenance	38,000	38,000	28,620	9,380
Retirement	37,000	37,000	43,221	(6,221)
Salaries and wages	164,800	164,800	173,971	(9,171)
Payroll taxes	14,000	14,000	13,983	17
Telephone and utilities	19,500	19,500	21,125	(1,625)
Travel and training	2,500	2,500	2,748	(248)
Capital outlays	-	-	-	-
Total General Government	461,050	461,050	434,952	26,098

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

40

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Automobile	14,500	14,500	17,886	(3,386)
Health and life insurance	55,000	55,000	56,049	(1,049)
Insurance	46,000	46,000	37,559	8,441
Dues and subscriptions	2,500	2,500	2,700	(200)
Janitorial supplies	250	250	-	250
Materials and supplies	20,000	20,000	15,117	4,883
Other expenses	-	-	12,795	(12,795)
Office expenses	3,500	3,500	3,286	214
Professional fees	5,000	5,000	5,025	(25)
Repairs and maintenance	13,000	13,000	13,962	(962)
Retirement	51,909	51,909	60,842	(8,933)
Salaries and wages	257,500	257,500	230,054	27,446
Payroll tax	22,000	22,000	19,745	2,255
Telephone and utilities	20,000	20,000	21,040	(1,040)
Travel and training	7,000	7,000	2,754	4,246
Uniform allowance	2,400	2,400	3,070	(670)
Capital outlays	-	-	50,982	(50,982)
Total Police	520,559	520,559	552,866	(32,307)
Fire:				
Automobile	2,500	2,500	2,465	35
Insurance	18,000	18,000	15,439	2,561
Materials and supplies	10,000	10,000	8,522	1,478
Other expenses	2,000	2,000	2,282	(282)
Repairs and maintenance	15,000	15,000	3,852	11,148
Telephone and utilities	8,500	8,500	9,341	(841)
Travel and training	2,000	2,000	-	2,000
Capital outlays	-	-	-	-
Total Fire	58,000	58,000	41,901	16,099
Dispatch:				
Automobile	1,000	1,000	1,399	(399)
Health and life insurance	59,000	59,000	52,849	6,151
Insurance	13,000	13,000	8,710	4,290
Dues and subscriptions	1,500	1,500	1,079	421
Janitorial supplies	100	100	-	100
Other expenses	-	-	7,538	(7,538)
Office expenses	2,500	2,500	2,605	(105)
Professional fees	16,500	16,500	17,077	(577)
Repairs and maintenance	15,000	15,000	13,464	1,536

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Retirement	44,000	44,000	48,951	(4,951)
Salaries and wages	230,000	230,000	216,360	13,640
Payroll tax	21,000	21,000	16,592	4,408
Telephone and utilities	13,500	13,500	15,691	(2,191)
Travel and training	2,000	2,000	856	1,144
Uniform allowance	2,800	2,800	629	2,171
Total Dispatch	421,900	421,900	403,800	18,100
Street:				
Automobile	2,000	2,000	-	2,000
Insurance	10,000	10,000	7,641	2,359
Other expenses	12,000	12,000	969	11,031
Materials and supplies	6,500	6,500	6,669	(169)
Repairs and maintenance	8,000	8,000	4,325	3,675
Utilities and telephone	42,000	42,000	41,447	553
Total Street	80,500	80,500	61,051	19,449
Total expenditures	1,542,009	1,542,009	1,494,570	47,439
Excess (deficiency) of revenues over expenditures	191,229	191,229	410,503	124,396
Other Financing Sources/(Uses):				
Operating transfers in	113,010	113,010	62,375	(50,635)
Operating transfers out	(103,200)	(103,200)	(92,672)	10,528
Proceeds from borrowing	-	-	50,982	50,982
Proceeds from insurance	-	-	5,660	5,660
Total Other Financing Sources/(Uses)	9,810	9,810	26,345	16,535
Net change in fund balance	<u>\$ 201,039</u>	<u>\$ 201,039</u>	436,848	<u>\$ 235,809</u>
Fund balance/(deficit) - beginning of year			(46,987)	
Fund balance - end of year			<u>\$ 389,861</u>	

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
TOURISM AND PLANNING COMMISSION FUND
FOR THE YEAR ENDED JUNE 30, 2020

42

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Restaurant tax	\$ 192,000	\$ 192,000	\$ 223,061	\$ 31,061
Motel tax	12,000	12,000	8,699	(3,301)
Shelter income	1,800	1,800	800	(1,000)
Interest income	55	55	72	17
Grants	-	-	9,082	9,082
Other receipts	-	-	1,518	1,518
Total revenues	<u>205,855</u>	<u>205,855</u>	<u>243,232</u>	<u>37,377</u>
Expenditures:				
Administrative	15,000	15,000	9,287	5,713
Donations	125,000	125,000	93,078	31,922
Materials and supplies	25,000	25,000	4,354	20,646
Other expenses	34,500	34,500	38,592	(4,092)
Office expenses	-	-	446	(446)
Salaries and wages	25,000	25,000	12,721	12,279
Repairs and maintenance	20,000	20,000	8,034	11,966
Capital outlays	46,355	46,355	-	46,355
Total expenditures	<u>290,855</u>	<u>290,855</u>	<u>166,512</u>	<u>124,343</u>
Excess (deficiency) of revenues over expenditures	(85,000)	(85,000)	76,720	(86,966)
Other financing sources/(uses):				
Operating transfers in/(out)	-	-	-	-
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ (85,000)</u>	<u>\$ (85,000)</u>	76,720	<u>\$ 161,720</u>
Fund balance - beginning of year			<u>117,007</u>	
Fund balance - end of year			<u>\$ 193,727</u>	

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2020

43

	6/30/2015	6/30/2016	6/30/2017
City's proportion of the net pension liability (asset)	0.048393%	0.047458%	0.046297%
City's proportionate share of the net pension liability (asset)	\$ 1,570,000	\$ 2,040,481	\$ 2,279,512
City's covered-employee payroll	\$ 1,107,267	\$ 1,104,432	\$ 1,189,202
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	141.79%	184.75%	191.68%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%
	6/30/2018	6/30/2019	6/30/2020
City's proportion of the net pension liability (asset)	0.048062%	0.047700%	0.049135%
City's proportionate share of the net pension liability (asset)	\$ 2,813,217	\$ 2,905,136	\$ 3,455,686
City's covered-employee payroll	\$ 1,206,464	\$ 1,264,786	\$ 1,281,650
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	233.18%	229.69%	269.63%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	53.54%	50.45%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF CITY PENSION CONTRIBUTIONS (CERS)
JUNE 30, 2020

44

	6/30/2015	6/30/2016	6/30/2017
Contractually required contribution	\$ 141,177	\$ 137,170	\$ 165,894
Contributions in relation to the contractually required contribution	141,177	137,170	165,894
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,107,267	\$ 1,104,432	\$ 1,189,202
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%
	6/30/2018	6/30/2019	6/30/2020
Contractually required contribution	\$ 174,696	\$ 205,148	\$ 247,358
Contributions in relation to the contractually required contribution	174,696	205,148	247,358
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,206,464	\$ 1,264,786	\$ 1,281,650
Contributions as a percentage of covered-employee payroll	14.48%	16.22%	19.30%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO REQUIRED PENSION SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2020**

45

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

The following changes in assumptions were modified as of the June 30, 2017 valuation:

- the assumed investment rate of return was decreased from 7.50% to 6.25%
- the assumed rate of inflation was reduced from 3.25% to 2.30%
- payroll growth assumption was reduced from 4.00% to 2.00%

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2019

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25% for CERS non-hazardous

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2020

46

	6/30/2018	6/30/2019	6/30/2020
City's proportion of the net OPEB liability (asset)	0.048062%	0.047700%	0.049135%
City's proportionate share of the net OPEB liability (asset)	\$ 966,211	\$ 846,886	\$ 826,227
City's covered-employee payroll	\$ 1,206,464	\$ 1,264,786	\$ 1,281,650
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	80.09%	66.96%	64.47%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF CITY OPEB CONTRIBUTIONS (CERS)
JUNE 30, 2020

47

	6/30/2018	6/30/2019	6/30/2020
Contractually required contribution	\$ 56,704	\$ 56,704	\$ 61,007
Contributions in relation to the contractually required contribution	56,704	56,704	61,007
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,206,464	\$ 1,264,786	\$ 1,281,650
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO REQUIRED OPEB SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2020**

48

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

The following changes in assumptions were modified as of the June 30, 2017 valuation:

- the assumed investment rate of return was decreased from 7.50% to 6.25%
- the assumed rate of inflation was reduced from 3.25% to 2.30%
- payroll growth assumption was reduced from 4.00% to 2.00%

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2019

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2019:

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Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2020

49

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
ASSETS						
Cash and cash equivalents	\$ 78,787	\$ 180	\$ -	\$ 55,758	\$91,376	\$ 226,101
Certificate of deposit	-	44,564	-	-	-	44,564
Receivables	-	-	2,516	-	-	2,516
Total Assets	<u>\$ 78,787</u>	<u>\$ 44,744</u>	<u>\$ 2,516</u>	<u>\$ 55,758</u>	<u>\$91,376</u>	<u>\$ 273,181</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 471	\$ 471
Other accrued liabilities	-	-	2,516	-	-	2,516
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,516</u>	<u>-</u>	<u>471</u>	<u>2,987</u>
Fund Balances:						
Restricted for:						
Debt service	78,787	-	-	-	-	78,787
Public safety	-	-	-	-	90,905	90,905
Streets	-	-	-	55,758	-	55,758
Assigned to:						
Public safety	-	44,744	-	-	-	44,744
Total Fund Balances	<u>78,787</u>	<u>44,744</u>	<u>-</u>	<u>55,758</u>	<u>90,905</u>	<u>270,194</u>
Total Liabilities and Fund Balances	<u>\$ 78,787</u>	<u>\$ 44,744</u>	<u>\$ 2,516</u>	<u>\$ 55,758</u>	<u>\$91,376</u>	<u>\$ 273,181</u>

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
Revenues:						
Taxes	\$ -	\$ 27,140	\$ -	\$ 17,089	\$ -	\$ 44,229
Wireless collections	-	-	-	-	144,395	144,395
Intergovernmental revenues	-	11,000	30,188	84,090	-	125,278
Grants	-	-	-	107,140	159,016	266,156
Investment income	277	297	-	569	36	1,179
Total revenues	277	38,437	30,188	208,888	303,447	581,237
Expenditures:						
Public safety	-	-	30,188	-	16,567	46,755
Streets	-	-	-	46,781	-	46,781
Capital outlays	-	12,470	-	160,134	182,185	354,789
Debt service:						
Principal retirement	95,810	-	-	-	-	95,810
Interest	13,563	-	-	-	-	13,563
Total expenditures	109,373	12,470	30,188	206,915	198,752	557,698
Excess (deficiency) of revenues over expenditures	(109,096)	25,967	-	1,973	104,695	23,539
Other financing sources (uses):						
Operating transfers in	124,513	-	-	-	-	124,513
Operating transfers out	-	(31,841)	-	-	(62,375)	(94,216)
Proceeds from insurance	-	-	-	-	-	-
Total other financing sources/(uses)	124,513	(31,841)	-	-	(62,375)	30,297
Net change in fund balances	15,417	(5,874)	-	1,973	42,320	53,836
Fund balances - beginning of year	63,370	50,618	-	53,785	48,585	216,358
Fund balances - end of year	\$ 78,787	\$ 44,744	\$ -	\$ 55,758	\$ 90,905	\$ 270,194

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
BUSINESS-TYPE ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2020

51

	SEWER	WATER	GAS	TOTAL
Administrative	\$ 81,715	\$ 81,715	\$ 115,855	\$ 279,285
Automobile	15,817	18,996	12,235	47,048
Chemicals	30,574	115,357	-	145,931
Depreciation	336,267	326,843	36,756	699,866
Dues and Subscriptions	2,773	5,549	1,619	9,941
Health and Life Insurance	58,434	81,698	17,835	157,967
Insurance	48,544	44,188	10,469	103,201
Materials and Supplies	20,597	34,238	20,211	75,046
Miscellaneous	565	1,260	818	2,643
Office Expenses	2,156	938	868	3,962
Postage	1,060	1,665	1,684	4,409
Professional Fees	42,509	47,046	6,263	95,818
Repairs and Maintenance	69,276	74,801	4,066	148,143
Retirement	131,473	185,035	58,625	375,133
Salaries and Wages	204,463	334,466	83,938	622,867
Payroll Taxes	18,114	25,596	6,368	50,078
Telephone and Utilities	142,686	151,190	1,239	295,115
Testing	11,435	8,314	-	19,749
Travel and Training	1,761	1,453	8,200	11,414
Uniform Allowance	2,207	2,739	847	5,793
TOTAL OPERATING EXPENSES	\$ 1,222,426	\$ 1,543,087	\$ 387,896	\$ 3,153,409