

CITY OF WEST LIBERTY  
AUDITED FINANCIAL STATEMENTS

June 30, 2008



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Robert W. Nickell, 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 City of West Liberty, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of West Liberty, Kentucky's, management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008, on our consideration of the City of West Liberty, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of West Liberty, Kentucky  
August 25, 2008  
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The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 42 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty, Kentucky, basic financial statements. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of West Liberty, Kentucky. The accompanying supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wells & Company, PSC*

Paintsville, Kentucky  
August 25, 2008

**CITY OF WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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As management of the City of West Liberty, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the City's financial statements that begin on page 9.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of West Liberty exceeded its liabilities at the close of the most recent fiscal year by \$13.53 million (net assets). Of this amount, \$548,235 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$293,067.
- As of the close of the current fiscal year, the City of West Liberty's governmental funds reported combined ending fund balances of \$779,145. Roughly 68% of this total amount \$531,988 is unreserved and available for use within the City's designation and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$161,363.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, streets, and tourism and planning. The business-type activities of the City include Water and Sewer operations.

**CITY OF WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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The government-wide financial statements can be found on pages 9 - 10 of this report.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 7 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, and Tourism and Planning Commission Fund both of which are considered to be major funds. Data from the other 5 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 11 - 14 of this report.

**Proprietary Funds** – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 15 - 19 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 32 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 42 - 45 of this report.

**CITY OF WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 46 - 47 of this report.

**GOVERNMENTAL-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of West Liberty, assets exceeded liabilities by \$13.53 million as of June 30, 2008.

The largest portion of the City's net assets (86.9%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF WEST LIBERTY'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>
Current and other assets	\$ 901,416	\$ 850,483	\$ 1,624,752	\$ 1,110,607	\$ 2,526,168	\$ 1,961,090
Capital assets	<u>1,899,771</u>	<u>2,039,704</u>	<u>13,429,476</u>	<u>13,519,580</u>	<u>15,329,247</u>	<u>15,559,284</u>
Total Assets	<u>2,801,187</u>	<u>2,890,187</u>	<u>15,054,228</u>	<u>14,630,187</u>	<u>17,855,415</u>	<u>17,520,374</u>
Long-term liabilities	337,585	375,590	3,480,734	3,428,186	3,818,319	3,803,776
Other liabilities	<u>85,135</u>	<u>67,946</u>	<u>713,093</u>	<u>116,717</u>	<u>798,228</u>	<u>184,663</u>
Total Liabilities	<u>422,720</u>	<u>443,536</u>	<u>4,193,827</u>	<u>3,544,903</u>	<u>4,616,547</u>	<u>3,988,439</u>
Net Assets:						
Invested in capital assets, net of related debt	1,562,186	1,664,114	9,948,742	10,091,394	11,510,928	11,755,508
Restricted	527,501	617,782	754,932	610,410	1,282,433	1,228,192
Unrestricted	<u>288,780</u>	<u>164,755</u>	<u>156,727</u>	<u>383,480</u>	<u>445,507</u>	<u>548,235</u>
Total Net Assets	<u>\$2,378,467</u>	<u>\$2,446,651</u>	<u>\$10,860,401</u>	<u>\$11,085,284</u>	<u>\$13,238,868</u>	<u>\$13,531,935</u>

An additional portion of the City's net assets (9.1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$548,235 may be used to meet the government's ongoing obligation to citizens and creditors.

As of June 30, 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories – governmental and business-type activities.

**CITY OF WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended June 30, 2008. Governmental activities increased the City of West Liberty's net assets by \$68,184 and business-type activities increased the City's net assets by \$224,883.

**CITY OF WEST LIBERTY'S CHANGES IN NET ASSETS**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 367,970	\$ 381,053	\$ 1,491,217	\$ 1,601,149	\$ 1,859,187	\$ 1,982,202
Operating grants and contributions	159,732	111,089	-	-	159,732	111,089
Capital grants and contributions	178,260	102,520	3,563,304	774,592	3,741,564	877,112
General revenues:						
Property taxes	175,832	192,149	-	-	175,832	192,149
Insurance premium taxes	382,856	345,132	-	-	382,856	345,132
Restaurant taxes	135,808	146,233	-	-	135,808	146,233
Occupational taxes and Licenses	-	211,282	-	-	-	211,282
Intergovernmental revenues	149,234	193,866	-	-	149,234	193,866
Other revenues	131,475	120,019	18,432	13,754	149,907	133,773
Total Revenues	<u>1,681,167</u>	<u>1,803,343</u>	<u>5,072,953</u>	<u>2,389,495</u>	<u>6,754,120</u>	<u>4,192,838</u>
Expenses:						
General government	502,327	530,084	-	-	502,327	530,084
Public safety	833,549	960,794	-	-	833,549	960,794
Streets	83,840	95,538	-	-	83,840	95,538
Tourism and planning	154,378	148,743	-	-	154,378	148,743
Water and sewer	-	-	1,996,743	2,164,612	1,996,743	2,164,612
Total Expenses	<u>1,574,094</u>	<u>1,735,159</u>	<u>1,996,743</u>	<u>2,164,612</u>	<u>3,570,837</u>	<u>3,899,771</u>
Increase/(decrease) in net assets	107,073	68,184	3,076,210	224,883	3,183,283	293,067
Net assets – July 1, 2007	<u>2,271,394</u>	<u>2,378,467</u>	<u>7,784,191</u>	<u>10,860,401</u>	<u>10,055,585</u>	<u>13,238,868</u>
Net assets – June 30, 2008	<u>\$2,378,467</u>	<u>\$2,446,651</u>	<u>\$10,860,401</u>	<u>\$11,085,284</u>	<u>\$13,238,868</u>	<u>\$13,531,935</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS**

**Government Funds** – The focus of the City of West Liberty's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of West Liberty's governmental funds reported combined ending fund balances of \$779,145. Approximately 68% of this total amount (\$531,988) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that is not available for new spending because it has already been committed to pay for debt service (\$247,157).

**CITY OF WEST LIBERTY, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Unaudited)

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The general fund had a decrease in the fund balance of \$122,594. The tourism and planning fund had an increase in fund balance of \$50,593. The debt service fund had an increase in fund balance of \$19,357. The fire tax fund had a decrease in fund balance of \$1,509. The municipal road aid fund had an increase in fund balance of \$26,030. The CMRS fund had a decrease in fund balance of \$4,190.

**Proprietary Funds** – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets of water and sewer were \$383,480. The fund had a net assets increase of \$224,883 million mainly due to the sewer plant project.

**General Fund budgetary highlights** – Total general fund revenues were \$1.41 million versus the budget of \$1.57 million. The shortfall in actual revenues was primarily due to insurance premium taxes and occupational taxes and licenses coming in lower than anticipated. Total general fund expenditures were \$1.68 million versus the budget of \$1.78 million. Police, dispatch, and administrative expenses all were substantially less than budgeted. Additional information on the City of West Liberty's budgetary highlights can be found on pages 42 - 44 of this report.

**CAPITAL ASSETS**

The City of West Liberty's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$15.56 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

**CAPITAL ASSETS AT YEAR-END**  
**NET OF ACCUMULATED DEPRECIATION**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>
Land	\$ 145,636	\$ 160,636	\$ 60,306	\$ 63,914	\$ 205,942	\$ 224,550
Buildings and improvements	415,043	407,533	500	469	415,543	408,002
Improvements other than buildings	370,795	329,878	-	-	370,795	329,878
Automobiles and trucks	93,982	345,425	-	-	93,982	345,425
Machinery and equipment	632,438	541,623	174,289	166,619	806,727	708,242
Infrastructure	241,877	254,609	-	-	241,877	254,609
Water plant and system	-	-	6,336,910	6,097,084	6,336,910	6,097,084
Sewer plant and system	-	-	1,603,961	7,042,880	1,603,961	7,042,880
Construction in progress	-	-	5,253,510	148,614	5,253,510	148,614
Total	<u>\$1,899,771</u>	<u>\$2,039,704</u>	<u>\$13,429,476</u>	<u>\$13,519,580</u>	<u>\$15,329,247</u>	<u>\$15,559,284</u>

Additional information on the City of West Liberty's capital assets can be found in note 3 on pages 26 - 28 of this report.

**CITY OF WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)**

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**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City of West Liberty had a total bonded debt and notes payable of \$3.80 million.

**OUTSTANDING DEBT AT YEAR END  
NOTES PAYABLE AND CAPITAL LEASES**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>
Bonds payable	\$296,000	\$281,000	\$3,306,000	\$3,270,000	\$3,602,000	\$3,551,000
Notes payable	<u>41,585</u>	<u>94,590</u>	<u>174,734</u>	<u>158,186</u>	<u>216,319</u>	<u>252,776</u>
Total Revenues	<u>\$337,585</u>	<u>\$375,590</u>	<u>\$3,480,734</u>	<u>\$3,428,186</u>	<u>\$3,818,319</u>	<u>\$3,803,776</u>

Additional information on the City of West Liberty's long-term debt can be found in note 4 on pages 28 - 31 of this report.

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

Inquiries of the City of West Liberty's fiscal year June 30, 2009 budget can be made at the address listed below.

**REQUEST FOR INFORMATION**

The financial report is designed to provide a general overview of the City of West Liberty's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, 565 Main Street, West Liberty, Kentucky 41472.

CITY OF WEST LIBERTY, KENTUCKY  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

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	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash	\$ 565,364	\$ 349,253	\$ 914,617
Certificates of deposit	238,356	315,742	554,098
Investments, at cost	-	132,999	132,999
Taxes receivable	12,058	-	12,058
Accounts receivable	21,650	141,638	163,288
Grants receivable	-	70,516	70,516
Interest receivable	1,056	309	1,365
Other receivables	11,257	-	11,257
Unbilled revenues	-	63,029	63,029
Inventory	-	22,910	22,910
Prepaid and other assets	742	14,211	14,953
Capital assets:			
Land and construction-in-progress	160,636	212,528	373,164
Other capital assets, net of accumulated depreciation	1,879,068	13,307,052	15,186,120
Total Assets	2,890,187	14,630,187	17,520,374
<b>LIABILITIES</b>			
Accounts payable	12,356	32,536	44,892
Retainage payable	-	5,988	5,988
Accrued payroll	13,437	10,769	24,206
Accrued payroll taxes	4,962	4,019	8,981
Accrued vacation	17,053	29,871	46,924
Accrued interest	8,486	22,336	30,822
Other accrued liabilities	11,652	11,198	22,850
Long-term liabilities:			
Due within one year	36,993	67,247	104,240
Due in more than one year	338,597	3,360,939	3,699,536
Total Liabilities	443,536	3,544,903	3,988,439
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,664,114	10,091,394	11,755,508
Restricted for:			
Depreciation	-	353,243	353,243
Fire service	176,988	-	176,988
Highways and streets	46,119	-	46,119
Tourism	135,726	-	135,726
911 dispatch	11,792	-	11,792
Debt service	247,157	257,167	504,324
Unrestricted	164,755	383,480	548,235
<b>Total Net Assets</b>	<b>\$ 2,446,651</b>	<b>\$ 11,085,284</b>	<b>\$ 13,531,935</b>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 510,529	\$ 212,216	\$ -	\$ -	\$ (298,313)	\$ -	\$ (298,313)
Public safety	957,981	168,837	34,334	102,520	(652,290)	-	(652,290)
Streets	95,538	-	76,755	-	(18,783)	-	(18,783)
Tourism and planning	148,743	-	-	-	(148,743)	-	(148,743)
Interest on long-term debt	22,368	-	-	-	(22,368)	-	(22,368)
Total governmental activities	1,735,159	381,053	111,089	102,520	(1,140,497)	-	(1,140,497)
Business-type activities:							
Water and sewer	2,164,612	1,601,149	-	774,592	-	211,129	211,129
Total business-type activities	2,164,612	1,601,149	-	774,592	-	211,129	211,129
Total primary government	\$ 3,899,771	\$ 1,982,202	\$ 111,089	\$ 877,112	(1,140,497)	211,129	(929,368)
General revenues:							
Property taxes					192,149	-	192,149
Fire taxes					22,001	-	22,001
Insurance premium taxes					345,132	-	345,132
Occupational taxes and licenses					211,282	-	211,282
Motor vehicle taxes					14,237	-	14,237
Restaurant taxes					146,233	-	146,233
Other taxes					12,983	-	12,983
Licenses and permits					10,388	-	10,388
Intergovernmental revenue					193,866	-	193,866
Interest income					14,572	13,754	28,326
Rental income					21,532	-	21,532
Miscellaneous					24,306	-	24,306
Total general revenues and transfers					1,208,681	13,754	1,222,435
Change in net assets					68,184	224,883	293,067
Net assets - beginning					2,378,467	10,860,401	13,238,868
Net assets - ending					\$ 2,446,651	\$ 11,085,284	\$ 13,531,935

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

11

	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 103,025	\$ 135,726	\$ 326,613	\$ 565,364
Certificates of deposits	81,379	-	156,977	238,356
Receivables:				
Property taxes	180	-	-	180
Interest	50	-	1,006	1,056
Other	30,806	-	2,101	32,907
Prepaid expenses	742	-	-	742
Total Assets	<u>\$ 216,182</u>	<u>\$ 135,726</u>	<u>\$ 486,697</u>	<u>\$ 838,605</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 9,816	\$ -	\$ 2,540	\$ 12,356
Accrued payroll	13,437	-	-	13,437
Accrued payroll taxes	4,962	-	-	4,962
Accrued vacation	17,053	-	-	17,053
Other accrued liabilities	9,551	-	2,101	11,652
Total Liabilities	<u>54,819</u>	<u>-</u>	<u>4,641</u>	<u>59,460</u>
<b>Fund Balances:</b>				
Reserved for debt service	-	-	247,157	247,157
Unreserved	161,363	135,726	234,899	531,988
Total Fund Balances	<u>161,363</u>	<u>135,726</u>	<u>482,056</u>	<u>779,145</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 216,182</u>	<u>\$ 135,726</u>	<u>\$ 486,697</u>	<u>\$ 838,605</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 ASSETS  
JUNE 30, 2008

12

**Fund Balances - Total Governmental Funds**

\$ 779,145

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

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

Governmental capital assets  
Less: accumulated depreciation

3,420,393  
(1,380,689)

Long-term liabilities are not due and payable in the current period  
and therefore are not reported in the funds.

(375,590)

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.

(8,486)

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

Delinquent property taxes

11,878

**Net Assets of Governmental Activities**

\$ 2,446,651

**CITY OF WEST LIBERTY, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

13

	<u>General Fund</u>	<u>Tourism and Planning</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
<b>Taxes:</b>				
Property	\$ 194,015	\$ -	\$ -	\$ 194,015
Insurance premium	345,132	-	-	345,132
Occupational taxes and licenses	211,282	-	-	211,282
Motor vehicle	14,237	-	-	14,237
Telecom	6,921	-	-	6,921
Fire	-	-	22,001	22,001
Restaurant	-	146,233	-	146,233
Motel	-	6,062	-	6,062
E-911	73,284	-	-	73,284
Shelter income	-	2,260	-	2,260
Wireless collections	-	-	95,553	95,553
Administrative	167,131	-	-	167,131
Licenses and permits	10,388	-	-	10,388
Intergovernmental revenues	132,121	-	108,223	240,344
Charges for garbage services	212,216	-	-	212,216
Rental income	19,272	-	-	19,272
Fines and forfeits	1,870	-	-	1,870
Interest income	4,027	848	9,697	14,572
Contributions	11,220	-	-	11,220
Miscellaneous revenues	8,101	1,000	2,115	11,216
<b>Total revenues</b>	<u>1,411,217</u>	<u>156,403</u>	<u>237,589</u>	<u>1,805,209</u>
<b>Expenditures:</b>				
General government	499,993	-	-	499,993
Public safety	787,445	-	72,094	859,539
Streets	37,181	-	-	37,181
Tourism and planning	-	105,810	-	105,810
Debt service				
Principal retirement	-	-	71,862	71,862
Interest	-	-	22,368	22,368
Capital outlay	350,635	-	-	350,635
<b>Total expenditures</b>	<u>1,675,254</u>	<u>105,810</u>	<u>166,324</u>	<u>1,947,388</u>
Excess (deficiency) of revenues over expenditures	(264,037)	50,593	71,265	(142,179)
<b>Other financing sources (uses):</b>				
Operating transfers in	93,046	-	109,469	202,515
Operating transfers out	(61,469)	-	(141,046)	(202,515)
Capital debt proceeds	109,866	-	-	109,866
<b>Total other financing sources (uses)</b>	<u>141,443</u>	<u>-</u>	<u>(31,577)</u>	<u>109,866</u>
Net change in fund balances	(122,594)	50,593	39,688	(32,313)
Fund balances - beginning	283,957	85,133	442,368	811,458
<b>Fund balances - ending</b>	<u>\$ 161,363</u>	<u>\$ 135,726</u>	<u>\$ 482,056</u>	<u>\$ 779,145</u>

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, 2008**

14

**Net Change in Fund Balances - Total Governmental Funds** **\$ (32,313)**

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	350,635
Depreciation expense	(210,702)

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

Decrease in property taxes	(1,866)
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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.

434

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.

(109,866)

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

Loans payable	71,862
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**Change in Net Assets of Governmental Activities**

\$ 68,184

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
 STATEMENT OF NET ASSETS  
 BUSINESS-TYPE ACTIVITY  
 JUNE 30, 2008

15

ASSETS	<u>Water &amp; Sewer</u>
<b>Current assets:</b>	
Cash	\$ 187,583
Accounts receivable, no allowance considered necessary	141,638
Grants receivable	70,516
Interest receivable	309
Unbilled revenues	63,029
Inventory	22,910
<b>Total current assets</b>	<u>485,985</u>
<b>Non-current assets:</b>	
<b>Restricted assets:</b>	
Cash	161,670
Certificate of deposits	315,742
Investments, at cost	132,999
<b>Total restricted assets</b>	<u>610,411</u>
<b>Utility Plant:</b>	
Plant in service	20,118,397
Less accumulated depreciation	(6,747,431)
	<u>13,370,966</u>
Construction work in progress	148,614
<b>Net utility plant</b>	<u>13,519,580</u>
<b>Other non-current assets:</b>	
Bond issuance costs, net	14,211
<b>Total other non-current assets</b>	<u>14,211</u>
<b>Total assets</b>	<u>\$ 14,630,187</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
STATEMENT OF NET ASSETS (Continued)  
BUSINESS-TYPE ACTIVITY  
JUNE 30, 2008

16

	<u>Water &amp; Sewer</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities:</b>	
Accounts payable - trade	\$ 32,536
Retainage payable	5,988
Accrued payroll	10,769
Accrued payroll taxes	4,019
Accrued vacation	29,871
Accrued interest payable	22,336
Other accrued liabilities	11,198
Current portion of long-term liabilities	<u>67,247</u>
<b>Total current liabilities</b>	<u>183,964</u>
<b>Long-term liabilities:</b>	
Long-term debt	<u>3,428,186</u>
	3,428,186
Less current portion	<u>(67,247)</u>
<b>Total long-term liabilities</b>	<u>3,360,939</u>
<b>Total liabilities</b>	<u>3,544,903</u>
<b>Net assets:</b>	
Investments in capital assets, net of related debt	10,091,394
Restricted for:	
Debt service	257,167
Depreciation	353,243
Unrestricted	<u>383,480</u>
<b>Total net assets</b>	<u>11,085,284</u>
<b>Total liabilities and net assets</b>	<u>\$ 14,630,187</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 BUSINESS-TYPE ACTIVITY  
 YEAR ENDED JUNE 30, 2008

17

	<u>Water &amp; Sewer</u>
<b>Operating revenues:</b>	
Sewer revenues	\$ 677,249
Water revenues	893,956
Other operating revenues	<u>29,944</u>
<b>Total operating revenues</b>	1,601,149
<b>Operating expenses:</b>	
Sewer	885,052
Water	<u>1,150,859</u>
<b>Total operating expenses</b>	<u>2,035,911</u>
<b>Utility operating income (loss)</b>	<u>(434,762)</u>
<b>Non-operating revenues (expenses):</b>	
Interest income	13,754
Interest expense	(128,268)
Amortization of bond issue costs	<u>(433)</u>
<b>Total non-operating revenues (expenses)</b>	<u>(114,947)</u>
<b>Net income (loss) before contributions from (to)</b>	(549,709)
Contributions in aid of construction	<u>774,592</u>
Change in net assets	224,883
Net assets, beginning of year	<u>10,860,401</u>
<b>Net assets, end of year</b>	<u><u>\$ 11,085,284</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, 2008

18

	<u>Water &amp; Sewer</u>
<b>Cash flows from operating activities:</b>	
<b>Cash inflows:</b>	
Payments received from customers	\$ 1,607,161
<b>Total cash provided</b>	<u>1,607,161</u>
<b>Cash outflows:</b>	
Payments for salaries and benefits	634,409
Payments to suppliers for goods and services	<u>864,527</u>
<b>Total cash used</b>	<u>1,498,936</u>
<b>Net cash provided (used) by operating activities</b>	<u>108,225</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of equipment	(1,203,932)
Proceeds from loan	123,281
Contributions-in-aid of construction	1,046,715
Principal payments on long-term debt	(175,829)
Interest paid on long-term debt	<u>(133,937)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(343,702)</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>13,868</u>
<b>Net cash provided (used) by investing activities</b>	<u>13,868</u>
<b>Net cash inflow (outflow) from all activities</b>	(221,609)
Cash and cash equivalents at beginning of period	<u>886,604</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 664,995</u></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, 2008

19

Water & Sewer

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

Utility operating income	\$ (434,762)
Depreciation	547,360
Bad debt expense	6,263
(Increase) decrease in:	
Accounts receivable	5,046
Unbilled revenue	966
Inventory	11,177
Prepaid expenses and other assets	(3,587)
Increase (decrease) in:	
Accounts payable	(31,008)
Accrued liabilities and other liabilities	6,770

Net cash provided (used) by operating activities

\$ 108,225

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash	\$ 286,364
Restricted cash	600,240
	<u>\$ 886,604</u>

End of period:

Unrestricted cash	\$ 187,583
Restricted cash	477,412
	<u>\$ 664,995</u>

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), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. 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. 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 assets and the statement of changes in net assets) 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

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

activities, which 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 properly 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 and Sewer Fund –**

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer 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 and sewer 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**

The City considers all cash, certificates of deposit, and savings to be cash equivalents. At June 30, 2008, the reported amount of the City's deposits was \$1,468,715 and the bank balance was \$1,470,182. Kentucky Revised Statutes requires depositories to provide an adequate pledge of securities to sufficiently cover deposits in excess of the \$100,000 Federal Deposit Insurance Corporation (FDIC) coverage. As of June 30, 2008, the City's deposits were adequately secured.

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associates insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Investments are stated at cost, which approximates market.

**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.

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

**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.

**I. Bond Discounts and Issue Costs**

Bond discounts and issue costs are being amortized over the life of the bonds using the straight-line 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 and Sewer 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.

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

**L. Net Assets**

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City 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.

**N. Allowance for Uncollectible Accounts**

The City's delinquent taxes and accounts receivable are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to those receivables.

**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. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**Q. Defined Pension Benefit Plan**

Substantially all City of West Liberty's full-time regular employees participate in the statewide Kentucky Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky. The payroll for employees covered by the System for the year ended June 30, 2008 was \$970,905; the City's total payroll was \$1,005,124.

All City full-time employees are eligible to participate in the System. The Plan provides for retirement, disability and death benefits.

Covered employees are required by State statute to contribute 5 percent of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service cost per annum plus interest at the actuarial assumed rate. Such

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

contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 16.17% for all covered employees. The contribution requirement for the year ended June 30, 2008 was \$205,541, which consisted of \$156,995 from the City and \$48,546 from employees.

Additional information and historical trend information can be obtained from the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

**R. Encumbrances**

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

**S. 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 2. PROPERTY TAXES**

Property taxes for fiscal year 2007 were levied on \$245,599,887 the assessed valuation of property 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 3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2008, consisted of the following:

**Governmental Activities**

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 145,636	\$ 15,000	\$ -	\$ 160,636
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>145,636</u>	<u>15,000</u>	<u>-</u>	<u>160,636</u>

**CITY OF WEST LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 3. CAPITAL ASSETS (Continued)**

**Capital assets, being depreciated:**

Buildings and improvements	580,409	4,950	-	585,359
Improvements other than buildings	613,759	-	-	613,759
Infrastructure	297,715	44,741	-	342,456
Automobiles and trucks	403,431	285,944	-	689,375
Machinery and equipment	<u>1,028,808</u>	<u>-</u>	<u>-</u>	<u>1,028,808</u>
Total capital assets being depreciated	2,924,122	335,635	-	3,259,757

**Less accumulated depreciation for:**

Buildings and improvements	(165,366)	(12,460)	-	(177,826)
Improvements other than buildings	(242,964)	(40,917)	-	(283,881)
Infrastructure	(55,838)	(32,009)	-	(87,847)
Automobiles and trucks	(309,449)	(34,501)	-	(343,950)
Machinery and equipment	<u>(396,370)</u>	<u>(90,815)</u>	<u>-</u>	<u>(487,185)</u>
Total accumulated depreciation	<u>(1,169,987)</u>	<u>(210,702)</u>	<u>-</u>	<u>(1,380,689)</u>
Total capital assets being depreciated, net	<u>1,754,135</u>	<u>124,933</u>	<u>-</u>	<u>1,879,068</u>

<b>Governmental activities capital assets, net</b>	<u>\$1,899,771</u>	<u>\$139,933</u>	<u>\$ -</u>	<u>\$2,039,704</u>
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Depreciation was charged to governmental functions as follows:

General government	\$ 10,970
Public safety	98,442
Tourism and planning	42,933
Streets	<u>58,357</u>

<b>Total</b>	<u>\$210,702</u>
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**Business-Type Activities**

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 60,306	\$ 3,608	\$ -	\$ 63,914
Construction in progress	<u>5,253,510</u>	<u>577,928</u>	<u>5,682,824</u>	<u>148,614</u>
Total capital assets, not being depreciated	<u>5,313,816</u>	<u>581,536</u>	<u>5,682,824</u>	<u>212,528</u>
<b>Capital assets, being depreciated:</b>				
Leasehold improvements	1,000	-	-	1,000
Machinery and equipment	663,474	35,929	-	699,403
Water plant and water system	9,070,882	14,031	-	9,084,913
Sewer plant and sewer system	<u>4,580,375</u>	<u>5,688,792</u>	<u>-</u>	<u>10,269,167</u>
Total capital assets being depreciated	14,315,731	5,738,752	-	20,054,483

**CITY OF WEST LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 3. CAPITAL ASSETS (Continued)**

**Less accumulated depreciation for:**

Leasehold improvements	(500)	(31)	-	(531)
Machinery and equipment	(489,185)	(43,599)	-	(532,784)
Water plant and water system	(2,733,972)	(253,857)	-	(2,987,829)
Sewer plant and sewer system	(2,976,414)	(249,873)	-	(3,226,287)
Total accumulated depreciation	<u>(6,200,071)</u>	<u>(547,360)</u>	<u>-</u>	<u>(6,747,431)</u>
Total capital assets being depreciated, net	<u>8,115,660</u>	<u>5,191,392</u>	<u>-</u>	<u>13,307,052</u>
Total utilities capital assets, net	<u>\$13,429,476</u>	<u>\$5,772,928</u>	<u>\$5,682,824</u>	<u>\$13,519,580</u>

**NOTE 4: LONG-TERM DEBT**

**Business –Type Activities**

The Water and Sewer Proprietary Fund presently has six bond issues outstanding.

- 1) 1988 Series - \$579,000 Water and Sewer revenue bonds, maturing through November 1, 2023, with interest at 5.0%.
- 2) 1998 Series - \$449,000 Water and Sewer revenue bonds, maturing through November 1, 2039, with interest at 4.5%.
- 3) 2001 Series (A) - \$1,000,000 Water and Sewer revenue bonds, maturing through November 1, 2041, with interest at 3.25%.
- 4) 2001 Series (B) - \$280,000 Water and Sewer revenue bonds, maturing through November 1, 2041, with interest at 4.5%.
- 5) 2006 Series - \$801,000 Water and Sewer revenue bonds, maturing through November 1, 2045, with interest at 4.125%.
- 6) 2007 Series - \$400,000 Water and Sewer revenue bonds, maturing through November 1, 2045, with interest at 4.125%.

Principal payments are due annually for revenue bonds on November 1, and interest payments are due semi-annually on May 1, and November 1.

Total bond interest expense for the year ended June 30, 2008, amounted to \$125,895.

The Water and Sewer Proprietary Fund note payable at June 30, 2008 consisted of the following:

In 1997, the City borrowed \$329,764 from Kentucky Infrastructure Authority, payable in semi-annual installments of \$9,298 including interest of 1.2%, final payment due on June 1, 2017.

**CITY OF WEST LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 4: LONG-TERM DEBT (Continued)**

	<b>Amount Outstanding 6/30/2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Amount Outstanding 6/30/2008</b>	<b>Amounts Due Within One Year</b>
Bond payable – 1988 issue	\$ 451,000	\$ -	(\$ 12,000)	\$ 439,000	\$12,000
Bond payable – 1998 issue	426,000	-	(5,500)	420,500	5,500
Bond payable – 2001 issue (A)	957,000	-	(15,000)	942,000	16,000
Bond payable – 2001 issue (B)	271,000	-	(3,500)	267,500	3,500
Bond payable – 2006 issue	801,000	-	-	801,000	9,000
Bond payable – 2007 issue	400,000	-	-	400,000	4,500
Note payable – KIA	174,734	-	(16,548)	158,186	16,747
Note payable – Commercial Bank (Interim)	-	123,281	(123,281)	-	-
Long-Term Debt	<u>\$3,480,734</u>	<u>\$ 123,281</u>	<u>(\$175,829)</u>	<u>\$3,428,186</u>	<u>\$67,247</u>

Principal and interest payments to be made on all long-term debt at June 30, 2008, for each of the next five years and thereafter are as follows:

<b>Year Ending 6/30</b>	<b>Bonds</b>	<b>Notes</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total</b>
2009	\$ 50,500	\$ 16,747	\$ 67,247	\$ 134,448	\$ 201,695
2010	52,000	16,948	68,948	131,554	200,502
2011	55,500	17,152	72,652	129,123	201,775
2012	56,500	17,359	73,859	126,594	200,453
2013	60,000	17,568	77,568	123,968	201,536
2014-2018	337,000	72,412	409,412	577,573	986,985
2019-2023	413,500	-	413,500	496,410	909,910
2024-2028	511,500	-	511,500	399,609	911,109
2029-2033	517,500	-	517,500	293,623	811,123
2034-2038	517,000	-	517,000	194,601	711,601
2039-2043	526,000	-	526,000	80,984	606,984
2044-2046	173,000	-	173,000	10,746	183,746
	<u>\$3,270,000</u>	<u>\$158,186</u>	<u>\$3,428,186</u>	<u>\$2,699,233</u>	<u>\$6,127,419</u>

**Governmental Activities**

The City presently has two bond issues outstanding.

- 1) Series A - \$300,000 Public properties first mortgage revenue bonds maturing through January 16, 2020, with interest at 6.0%.
- 2) Series B - \$118,000 Public properties first mortgage revenue bonds maturing through January 16, 2020, with interest at 6.0%.

Principal and interest payments are due annually for revenue bonds on January 1.

Total bond interest expense for the year ended June 30, 2008, amounted to \$17,760.

**CITY OF WEST LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 4: LONG-TERM DEBT (Continued)**

The City's notes payable at June 30, 2008 consisted of the following:

- 1) On October 23, 2007, the City borrowed \$39,866 from Commercial Bank of West Liberty to refinance a \$70,544 loan made in 2002 to finance a portion of the construction of the City Hall building. The loan agreement calls for 60 monthly payments of \$744 beginning November 23, 2007.
- 2) On August 10, 2007, the City borrowed \$70,000 from the Kentucky League of Cities to finance the purchase of police cruisers. The loan agreement calls for 61 monthly payments ranging from \$1,285 to \$1,375.

	<u>Amount Outstanding 6/30/2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2008</u>	<u>Amounts Due Within One Year</u>
Bond payable – series A	\$220,000	\$ -	\$(11,000)	\$209,000	\$12,000
Bond payable – series B	76,000	-	(4,000)	72,000	4,500
Police Cars (KLC)	-	70,000	(10,471)	59,529	13,005
City Hall (Commercial Bank)	41,585	-	(41,585)	-	-
City Hall (Commercial Bank)	<u>-</u>	<u>39,866</u>	<u>(4,805)</u>	<u>35,061</u>	<u>7,487</u>
Long-Term Debt	<u>\$337,585</u>	<u>\$109,866</u>	<u>(\$71,861)</u>	<u>\$375,590</u>	<u>\$36,992</u>

Principal and interest payments to be made on all long-term debt at June 30, 2008, 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>
2009	\$ 16,500	\$20,492	\$ 36,992	\$ 19,958	\$ 56,950
2010	17,500	21,436	38,936	18,177	57,113
2011	19,000	22,426	41,426	16,345	57,771
2012	20,000	23,461	43,461	14,387	57,848
2013	20,500	6,775	27,275	12,561	39,836
2014-2018	127,000	-	127,000	41,869	168,869
2019-2021	<u>60,500</u>	<u>-</u>	<u>60,500</u>	<u>5,490</u>	<u>65,990</u>
	<u>\$281,000</u>	<u>\$94,590</u>	<u>\$375,590</u>	<u>\$128,787</u>	<u>\$504,377</u>

**NOTE 4: LONG-TERM DEBT (Continued)**

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, 2008 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and investments.

**NOTE 5 - 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 \$132,999 are being invested in U.S. Government securities, which are registered and backed by the full faith and credit of the U.S. Government, and are being held by The Bank of New York Trust Company, the administrator of certain bonds, and \$103,044 is being held by the Commercial Bank of West Liberty in an interest bearing account.

Proprietary Funds Debt Service Reserve Fund in the amount of \$21,125 is being held in an interest bearing account at the Commercial Bank of West Liberty.

General Fund Bond Sinking Fund in the amount of \$188,011 is being held in an interest bearing account by the Commercial Bank of West Liberty. These funds are being maintained in the Debt Service Fund.

General Fund Debt Service Reserve Fund in the amount of \$59,146 is being held in an interest bearing savings account at the Commercial Bank of West Liberty, these funds are being maintained in the Debt Service Fund.

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 and for Waste Water Depreciation is \$353,243.

**NOTE 6 – 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.

**CITY OF WEST LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 7 – 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 8 - RELATED PARTIES**

Generally accepted auditing standards require disclosure of related party transactions. A related party transaction is defined as a transaction that involves the entity being audited and any member of management or their immediate family. The City of West Liberty and councilman John May and councilwoman Belinda Jordan were involved in related party transactions. The City purchased \$3,118 of computer equipment and supplies from West Liberty Electronics, which is owned by John May, and the City purchased \$122 of supplies from Seasons Florist and Gift Shop, which is owned by Belinda Jordan.

For the period dated June 30, 2008, the City's Utility Fund paid the City's General Fund \$160,142 for office rent and administrative expenses.

CITY OF WEST LIBERTY, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008

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<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development			
Rural Business Enterprise Grants	10.769	1780-12	\$ 130,000
Community Facilities Grant	10.766		100,000
			<hr/>
Total U.S. Department of Agriculture			230,000
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Pass-through program from Kentucky Rural Development			
Personal Responsibility In a Desirable Environment (PRIDE)	11.469		39,972
			<hr/>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-through program from the Commonwealth of Kentucky,			
Governor's Office for Local Development			
Community Development Block Grant	14.228	04-055	6,000
			<hr/>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Pass-through program from USDA Rural Development			
Appalachian Regional Development Project Grants	23.001		219,881
			<hr/>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from the Morgan County Fiscal Court			
Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP-96429605-0	151,804
			<hr/>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-through program from State Department of Military Affairs			
Public Assistance Grant	97.036	1746-DR	60,790
			<hr/>
Total Expenditures of Federal Awards			<hr/> <hr/> \$ 708,447

See accompanying note to schedule of expenditures of federal awards.

**CITY OF WEST LIBERTY, KENTUCKY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of West Liberty and is presented on the annual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## AUDITOR'S REPORT



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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**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 Robert W. Nickell, 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, 2008, which collectively comprise the City of West Liberty, Kentucky's basic financial statements and have issued our report thereon dated August 25, 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of West Liberty, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty, Kentucky's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of West Liberty, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of West Liberty, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of West Liberty, Kentucky's internal control. We consider the deficiencies (item 08-01 and 08-02) described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of West Liberty, Kentucky's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-01 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of West Liberty, Kentucky's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of West Liberty, Kentucky, in a separate letter dated August 25, 2008.

The City of West Liberty, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of West Liberty, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wells & Company, PSC*

Paintsville, Kentucky  
August 25, 2008



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Robert W. Nickell, Mayor  
Members of the City Council  
City of West Liberty, Kentucky

**Compliance**

We have audited the compliance of the City of West Liberty, Kentucky, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of West Liberty, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of West Liberty, Kentucky's management. Our responsibility is to express an opinion on the City of West Liberty, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of West Liberty, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of West Liberty, Kentucky's compliance with those requirements.

In our opinion, the City of West Liberty, Kentucky, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of the City of West Liberty, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of West Liberty, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty, Kentucky's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination or significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nella & Company, PSC*

Paintsville, Kentucky  
August 25, 2008

**CITY OF WEST LIBERTY, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008**

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**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of West Liberty, Kentucky.
2. Two significant deficiencies disclosed during the audit of the financial statements was reported in the "Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*". One of the two conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of West Liberty, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the "Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for the City of West Liberty, Kentucky expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program included:
  - a) Appalachian Regional Development Project Grants CFDA#23.001
  - b) Surveys, Studies, Investigations and Special Purpose Grants CFDA#66.606
8. The threshold used for distinguishing between Type A and B programs was \$300,000
9. The City of West Liberty, Kentucky did not qualify as a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCIES**

**08-1 Segregation of duties**

Condition:

Presently, the City of West Liberty, Kentucky has an absence of appropriate segregation of duties consistent with appropriate internal control objectives which is due to limited personnel.

Recommendation:

Internal Controls should be in place to provide reasonable assurance that the safeguarding of assets and financial records be maximized. Compensating controls should be designed and implemented.

Management Comment:

Management of the City of West Liberty, Kentucky concurs with the finding and plans to develop compensating controls.

**CITY OF WEST LIBERTY, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008**

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**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCIES (Continued)**

**08-2 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.

Recommendation:

There should be continuing education for personnel engaged in financial reporting.

Management Comment:

Management of the City of West Liberty, Kentucky concurs with the finding.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

**CITY OF WEST LIBERTY, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2008**

**41**

There were no findings and recommendations for the year ended June 30, 2007.

## REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WEST LIBERTY, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Property taxes	\$ 190,000	\$ 194,015	\$ 4,015
Taxes on insurance premiums	450,000	345,132	(104,868)
Occupational taxes and licenses	304,150	211,282	(92,868)
E911	75,000	73,284	(1,716)
Unloading license	-	8,638	8,638
Building permits	-	1,750	1,750
Law enforcement fees	14,500	26,735	12,235
Motor vehicle tax	13,000	14,237	1,237
Telecom tax	12,000	6,921	(5,079)
Interest	-	4,027	4,027
Rent	18,000	19,272	1,272
Garbage fees	210,000	212,216	2,216
Fines and forfeits	-	1,870	1,870
Administrative	160,000	167,131	7,131
Grant revenue	100,000	105,386	5,386
Contributions	-	11,220	11,220
Other receipts	25,000	8,101	(16,899)
Total Revenues	<u>1,571,650</u>	<u>1,411,217</u>	<u>(160,433)</u>
<b>Expenditures:</b>			
<b>General government:</b>			
Health and life insurance	35,000	48,419	(13,419)
Insurance	38,800	37,621	1,179
Garbage fees	210,000	201,200	8,800
Dues and subscriptions	2,000	4,372	(2,372)
Materials and supplies	2,500	1,186	1,314
Janitorial supplies	2,000	536	1,464
Mayor and city council fees	10,000	7,800	2,200
Other expenses	6,200	14,085	(7,885)
Office expenses	2,500	14,421	(11,921)
Professional fees	7,500	6,793	707
Postage	2,000	849	1,151
Repairs and maintenance	10,000	3,762	6,238
Retirement	15,000	15,870	(870)
Salaries and wages	120,000	116,502	3,498
Payroll taxes	8,000	8,338	(338)
Telephone and utilities	18,000	16,679	1,321
Travel and training	2,500	1,560	940
Capital outlays	55,000	-	55,000
Total General Government	<u>547,000</u>	<u>499,993</u>	<u>47,007</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE (Continued)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Police:</b>			
Automobile	20,000	17,906	2,094
Health and life insurance	34,000	36,887	(2,887)
Insurance	35,000	30,979	4,021
Dues and subscriptions	1,600	1,895	(295)
Janitorial supplies	1,000	391	609
Materials and supplies	12,200	18,718	(6,518)
Other expenses	1,500	2,398	(898)
Office expenses	5,000	12,225	(7,225)
Professional fees	7,100	5,933	1,167
Repairs and maintenance	17,000	11,922	5,078
Retirement	41,000	36,880	4,120
Salaries and wages	308,000	210,849	97,151
Payroll tax	20,000	16,707	3,293
Telephone and utilities	15,000	16,141	(1,141)
Travel and training	12,000	11,964	36
Uniform allowance	6,000	2,539	3,461
Capital outlays	40,000	67,975	(27,975)
<b>Total Police</b>	<u>576,400</u>	<u>502,309</u>	<u>74,091</u>
<b>Fire:</b>			
Automobile	5,000	3,621	1,379
Insurance	6,000	6,831	(831)
Materials and supplies	8,000	733	7,267
Other expenses	15,500	4,701	10,799
Repairs and maintenance	13,000	784	12,216
Telephone and utilities	7,000	7,000	-
Travel and training	6,000	2,731	3,269
Capital outlays	100,000	222,919	(122,919)
<b>Total Fire</b>	<u>160,500</u>	<u>249,320</u>	<u>(88,820)</u>
<b>Dispatch:</b>			
Automobile	2,500	1,482	1,018
Health and life insurance	33,000	36,277	(3,277)
Insurance	3,000	4,174	(1,174)
Dues and subscriptions	1,500	1,231	269
Janitorial supplies	1,500	382	1,118
Materials and supplies	2,500	177	2,323
Other expenses	1,000	726	274
Office expenses	5,000	2,650	2,350
Professional fees	7,500	5,903	1,597
Repairs and maintenance	5,000	3,915	1,085

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE (Continued)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008

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	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Retirement	31,000	33,720	(2,720)
Salaries and wages	250,000	206,960	43,040
Payroll tax	15,000	15,002	(2)
Telephone and utilities	10,000	9,405	595
Travel and training	5,000	2,075	2,925
Uniform allowance	3,000	2,631	369
Capital outlays	25,000	-	25,000
Total Dispatch	<u>401,500</u>	<u>326,710</u>	<u>74,790</u>
<b>Street:</b>			
Automobile	-	3,735	(3,735)
Insurance	-	2,824	(2,824)
Other expenses	9,950	4,434	5,516
Materials and supplies	1,200	2,664	(1,464)
Repairs and maintenance	1,100	4,544	(3,444)
Utilities and telephone	15,000	18,980	(3,980)
Capital outlays	70,000	59,741	10,259
Total Street	<u>97,250</u>	<u>96,922</u>	<u>328</u>
<b>Total Expenditures</b>	<u>1,782,650</u>	<u>1,675,254</u>	<u>107,396</u>
<b>Other Financing Sources/(Uses):</b>			
Operating transfers	115,000	31,577	(83,423)
Proceeds from borrowing	-	109,866	109,866
Total Other Financing Uses	<u>115,000</u>	<u>141,443</u>	<u>26,443</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (96,000)</u>	(122,594)	<u>\$ (26,594)</u>
Fund Balance at Beginning of Year		<u>283,957</u>	
Fund Balance at End of Year		<u>\$ 161,363</u>	

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
TOURISM AND PLANNING COMMISSION FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restaurant tax	\$ 129,000	\$ 146,233	\$ 17,233
Motel tax	6,000	6,062	62
Shelter income	3,000	2,260	(740)
Interest income	1,500	848	(652)
Other receipts	-	1,000	1,000
	<u>139,500</u>	<u>156,403</u>	<u>16,903</u>
<b>Total Revenues</b>			
	<u>139,500</u>	<u>156,403</u>	<u>16,903</u>
<b>Expenditures:</b>			
Administrative	6,500	6,989	(489)
Donations	118,000	79,644	38,356
Dues and subscriptions	-	321	(321)
Materials and supplies	-	6,168	(6,168)
Other expenses	3,000	3,348	(348)
Office expenses	-	168	(168)
Repairs and maintenance	12,000	9,172	2,828
Capital outlays	-	-	-
	<u>139,500</u>	<u>105,810</u>	<u>33,690</u>
<b>Total Expenditures</b>			
	<u>139,500</u>	<u>105,810</u>	<u>33,690</u>
<b>Other Financing Sources/(Uses):</b>			
Operating transfers	-	-	-
Proceeds from borrowing	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Uses</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)</b>	<u>\$ -</u>	<u>50,593</u>	<u>\$ 50,593</u>
<b>Fund Balance at Beginning of Year</b>		<u>85,133</u>	
<b>Fund Balance at End of Year</b>		<u>\$ 135,726</u>	

See accompanying notes to basic financial statements.

## SUPPLEMENTAL AND OTHER INFORMATION

CITY OF WEST LIBERTY, KENTUCKY  
 COMBINING BALANCE SHEET  
 NON-MAJOR FUNDS  
 JUNE 30, 2008

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	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
<b>ASSETS</b>						
Cash and cash equivalents	\$247,157	\$ 19,005	\$ -	\$ 46,119	\$14,332	\$ 326,613
Certificates of deposit	-	156,977	-	-	-	156,977
Receivables	-	1,006	2,101	-	-	3,107
Total Assets	<u>\$247,157</u>	<u>\$176,988</u>	<u>\$ 2,101</u>	<u>\$ 46,119</u>	<u>\$14,332</u>	<u>\$ 486,697</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,540	\$ 2,540
Other accrued liabilities	-	-	2,101	-	-	2,101
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,101</u>	<u>-</u>	<u>2,540</u>	<u>4,641</u>
<b>Fund Balances:</b>						
Reserved for debt service	247,157	-	-	-	-	247,157
Unreserved	-	176,988	-	46,119	11,792	234,899
Total Fund Balances	<u>247,157</u>	<u>176,988</u>	<u>-</u>	<u>46,119</u>	<u>11,792</u>	<u>482,056</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$247,157</u>	<u>\$176,988</u>	<u>\$ 2,101</u>	<u>\$ 46,119</u>	<u>\$14,332</u>	<u>\$ 486,697</u>

See accompanying notes to basic financial statements.

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, 2008

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
<b>Revenues:</b>						
Taxes	\$ -	\$ 22,001	\$ -	\$ -	\$ -	\$ 22,001
City stickers	-	-	-	-	-	-
Wireless collections	-	-	-	-	95,553	95,553
Intergovernmental revenues	-	8,250	23,218	76,755	-	108,223
Other receipts	-	-	-	2,115	-	2,115
Investment income	4,118	4,948	-	515	116	9,697
<b>Total revenues</b>	<b>4,118</b>	<b>35,199</b>	<b>23,218</b>	<b>79,385</b>	<b>95,669</b>	<b>237,589</b>
<b>Expenditures:</b>						
Public safety	-	17,165	23,218	-	31,711	72,094
Debt service:						
Principal retirement	71,862	-	-	-	-	71,862
Interest	22,368	-	-	-	-	22,368
<b>Total expenditures</b>	<b>94,230</b>	<b>17,165</b>	<b>23,218</b>	<b>-</b>	<b>31,711</b>	<b>166,324</b>
Excess (deficiency) of revenues over expenditures	(90,112)	18,034	-	79,385	63,958	71,265
<b>Other financing sources (uses):</b>						
Operating transfers in	109,469	-	-	-	-	109,469
Operating transfers out	-	(19,543)	-	(53,355)	(68,148)	(141,046)
<b>Total other financing sources (uses)</b>	<b>109,469</b>	<b>(19,543)</b>	<b>-</b>	<b>(53,355)</b>	<b>(68,148)</b>	<b>(31,577)</b>
<b>Net change in fund balances</b>	<b>19,357</b>	<b>(1,509)</b>	<b>-</b>	<b>26,030</b>	<b>(4,190)</b>	<b>39,688</b>
<b>Fund balances - beginning</b>	<b>227,800</b>	<b>178,497</b>	<b>-</b>	<b>20,089</b>	<b>15,982</b>	<b>442,368</b>
<b>Fund balances - ending</b>	<b>\$247,157</b>	<b>\$176,988</b>	<b>\$ -</b>	<b>\$ 46,119</b>	<b>\$11,792</b>	<b>\$ 482,056</b>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY  
SCHEDULE OF OPERATING EXPENSES  
BUSINESS-TYPE ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2008**

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	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
Administrative	\$ 80,071	\$ 80,071	\$ 160,142
Automobile	10,827	13,306	24,133
Bad Debt	2,088	4,175	6,263
Chemicals	13,500	64,508	78,008
Depreciation	276,563	270,797	547,360
Dues and Subscriptions	974	1,323	2,297
Health and Life Insurance	36,858	42,241	79,099
Insurance	35,926	42,241	78,167
Janitorial Supplies	341	424	765
Materials and Supplies	28,018	67,541	95,559
Miscellaneous	1,896	852	2,748
Office Expenses	1,710	4,096	5,806
Postage	1,754	1,797	3,551
Professional Fees	5,902	5,870	11,772
Repairs and Maintenance	36,480	94,949	131,429
Retirement	33,478	36,785	70,263
Salaries and Wages	214,190	244,986	459,176
Payroll Taxes	14,935	17,650	32,585
Telephone and Utilities	79,781	147,045	226,826
Testing	6,079	6,542	12,621
Travel and Training	427	1,577	2,004
Uniform Allowance	3,254	2,083	5,337
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$885,052</u></u>	<u><u>\$ 1,150,859</u></u>	<u><u>\$2,035,911</u></u>

**CITY OF WEST LIBERTY, KENTUCKY  
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL  
June 30, 2008**

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**CITY COUNCIL**

<u>NAME</u>	<u>TERM EXPIRES</u>
Vickie Henley	December 31, 2008
Belinda Jordan	December 31, 2008
John May	December 31, 2008
Alton Pelfrey	December 31, 2008
Jim Rupe	December 31, 2008
Mark Walter	December 31, 2008

**ADMINISTRATIVE PERSONNEL**

<u>NAME</u>	
Robert M. Nickell	Mayor
Sally Barker	City Clerk
Sharon Lykins	Utilities Clerk
Amy Baldwin	Bookkeeper

**CITY OF WEST LIBERTY, KENTUCKY**  
**SCHEDULE OF INSURANCE**  
**June 30, 2008**

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**COVERAGE**

**FIRE AND EXTENDED COVERAGE**

City Hall Building	\$	1,511,110
City Hall Building - contents		218,379
Sewer Plant		5,714,819
Sewer Plant - contents		66,176
Old Water Plant		1,935,076
Old Water Plant - contents		44,117
New Water Plant		4,016,827
New Water Plant - contents		46,323
Water Tanks		500,175
Fire Department Building		36,509
Water Fill Station		8,934
Fire Department Meeting House		149,112
Fire Department Meeting House - contents		38,603
Lift Station		168,416
Sediment Beds		231,394
Storage Building		108,858
Storage Building - contents		6,618
Pump Stations		1,402,927
Drying Bed Cover		47,757
Old Mill Park		472,826

**AUTOMOBILE EQUIPMENT**

Liability coverage - per accident	\$	2,000,000
Uninsured motorist		100,000
Underinsured motorist		100,000
Personal injury		10,000
Physical damage		Actual cash value

**WORKMEN'S COMPENSATION**

Statutory

**GENERAL LIABILITY**

Personal and advertising injury	\$	2,000,000
Hazardous response		2,000,000
Employee benefits liability		2,000,000
Fire damage		100,000
Medical expense		5,000

**PUBLIC OFFICIALS' LIABILITY**

\$ 2,000,000

**LAW ENFORCEMENT LIABILITY**

\$ 2,000,000

**PUBLIC OFFICIAL BONDS**

Robert M. Nickell	\$	75,000
Sally Barker		75,000
Amy Baldwin		65,000
Sharon Lykins		65,000



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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August 25, 2008

HONORABLE MAYOR AND CITY COUNCIL  
West Liberty, Kentucky

In planning and performing our audit of the financial statements of the City of West Liberty, Kentucky ("City") for the year ended June 30, 2008, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. Our objective was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operations. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 25, 2008 contains our report on compliance and on internal control over financial reporting. This letter does not affect our report dated August 25, 2008 on the financial statements of the City of West Liberty, Kentucky.

We have already discussed several of these comments and suggestions with City personnel, and we will be pleased to discuss them in further detail at your convenience, or to perform any additional study of these matters, or to assist you in implementing any of the recommendations.

Also, we would like to thank management and the City's team members for the cooperation and courtesy extended to us during our audit.

Sincerely,

*Wells & Company, P.S.C.*

## 2008-01 INSURANCE EXPENSE

It was noted during the audit that KLCIS insurance expense was being inconsistently charged to each of the departments of the general fund and the special revenue funds and water & sewer fund. It was recommended during the audit that the insurance expense be allocated to each department when the invoice is paid by figuring the total insurance expense for the year and figuring the percentage amounts that needed to be allocated to each department. The city knows the total cost of insurance for a fiscal year but pays the premiums in installment payments. An Excel worksheet can be designed to calculate the percentages of the insurance cost for each department and then the amount of insurance to be charged to each department can be consistently applied.

## 2008-02 OCCUPATIONAL TAX REVENUE

It was noted during the audit that the city had an occupational tax payable account #316-10-000 setup for the occupational taxes withheld from city employees pay. There was a balance in this account at fiscal year end June 30, 2008. This account should have a zero balance because the city does not have an actual liability to itself.

## 2008-03 GRANT REVENUE

It was noted during the audit that a contribution from the Morgan County Schools for the sewer upgrade project was recorded directly against the expenses in the construction in progress account. The contribution should have been recorded in the appropriate revenue account.

## 2008-04 INVENTORY

It is recommended that an inventory count on water and sewer supplies be performed near year end. The counts could be recorded in an excel worksheet. The worksheet should include the item description, the quantity, cost per item, and the total cost. The inventory count does not include machinery and equipment as these are accounted for in fixed assets and are on the depreciation schedule.