

CITY OF WEST LIBERTY
AUDITED FINANCIAL STATEMENTS
June 30, 2011



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

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INDEPENDENT AUDITOR'S REPORT

The Honorable Jim Rupe, 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, 2011, 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, 2011, and the respective changes in financial position, and where applicable, cash flows, 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 22, 2011, 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 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 22, 2011

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty, Kentucky's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wells & Company, PSC

Certified Public Accountants

Paintsville, Kentucky

August 22, 2011

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2011

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 527,500	\$ 454,441	\$ 981,941
Certificates of deposit	165,949	73,996	239,945
Taxes receivable	19,438	-	19,438
Accounts receivable	19,471	202,042	221,513
Interest receivable	365	106	471
Other receivables	15,528	-	15,528
Unbilled revenues	-	90,690	90,690
Inventory	-	64,658	64,658
Other assets	1,325	38,328	39,653
Capital assets:			
Land and construction-in-progress	210,136	63,914	274,050
Other capital assets, net of accumulated depreciation	1,677,677	13,242,567	14,920,244
Total Assets	2,637,389	14,230,742	16,868,131
LIABILITIES			
Accounts payable	21,544	72,717	94,261
Accrued payroll	21,526	18,727	40,253
Accrued payroll taxes	3,896	3,250	7,146
Accrued vacation	25,078	41,328	66,406
Accrued interest	6,840	21,196	28,036
Other accrued liabilities	13,944	14,243	28,187
Long-term liabilities:			
Due within one year	34,876	140,829	175,705
Due in more than one year	211,825	3,986,708	4,198,533
Total Liabilities	339,529	4,298,998	4,638,527
NET ASSETS			
Invested in capital assets, net of related debt	1,641,112	9,178,944	10,820,056
Restricted for:			
Depreciation	-	212,004	212,004
Fire service	212,986	-	212,986
Highways and streets	42,293	-	42,293
Tourism	71,212	-	71,212
911 dispatch	1,350	-	1,350
Debt service	299,666	64,729	364,395
Unrestricted	29,241	476,067	505,308
Total Net Assets	\$ 2,297,860	\$ 9,931,744	\$ 12,229,604

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 568,533	\$ 231,335	\$ -	\$ -	\$ (337,198)	\$ -	\$ (337,198)
Public safety	1,108,382	171,027	7,750	-	(929,605)	-	(929,605)
Streets	173,232	-	-	-	(173,232)	-	(173,232)
Tourism and planning	197,778	-	-	-	(197,778)	-	(197,778)
Interest on long-term debt	16,029	-	-	-	(16,029)	-	(16,029)
Total governmental activities	<u>2,063,954</u>	<u>402,362</u>	<u>7,750</u>	<u>-</u>	<u>(1,653,842)</u>	<u>-</u>	<u>(1,653,842)</u>
Business-type activities:							
Water, Sewer, Gas	2,995,520	2,594,670	-	114,791	-	(286,059)	(286,059)
Total business-type activities	<u>2,995,520</u>	<u>2,594,670</u>	<u>-</u>	<u>114,791</u>	<u>-</u>	<u>(286,059)</u>	<u>(286,059)</u>
Total primary government	<u>\$ 5,059,474</u>	<u>\$ 2,997,032</u>	<u>\$ 7,750</u>	<u>\$ 114,791</u>	<u>(1,653,842)</u>	<u>(286,059)</u>	<u>(1,939,901)</u>
General revenues:							
Property taxes					183,746	-	183,746
Fire taxes					21,938	-	21,938
Insurance premium taxes					336,613	-	336,613
Occupational taxes and licenses					345,235	-	345,235
Motor vehicle taxes					15,866	-	15,866
Restaurant taxes					168,319	-	168,319
Other taxes					19,704	-	19,704
Licenses and permits					5,300	-	5,300
Intergovernmental revenue					386,181	-	386,181
Interest income					5,904	3,537	9,441
Rental income					18,893	-	18,893
Miscellaneous					13,096	-	13,096
Total general revenues and transfers					<u>1,520,795</u>	<u>3,537</u>	<u>1,524,332</u>
Change in net assets					(133,047)	(282,522)	(415,569)
Net assets - beginning					<u>2,430,907</u>	<u>10,214,266</u>	<u>12,645,173</u>
Net assets - ending					<u>\$ 2,297,860</u>	<u>\$ 9,931,744</u>	<u>\$ 12,229,604</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

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	<u>General Fund</u>	<u>Tourism and Planning</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 65,717	\$ 71,212	\$ 390,571	\$ 527,500
Certificates of deposits	-	-	165,949	165,949
Due from general fund	-	-	753	753
Receivables:				
Property taxes	745	-	-	745
Interest	-	-	365	365
Other	32,582	-	2,417	34,999
Other assets	-	-	1,325	1,325
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 99,044</u>	<u>\$ 71,212</u>	<u>\$ 561,380</u>	<u>\$ 731,636</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 18,876	\$ -	\$ 2,668	\$ 21,544
Accrued payroll	21,526	-	-	21,526
Accrued payroll taxes	3,896	-	-	3,896
Accrued vacation	25,078	-	-	25,078
Other accrued liabilities	11,527	-	2,417	13,944
Due to debt service fund	753	-	-	753
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>81,656</u>	<u>-</u>	<u>5,085</u>	<u>86,741</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	299,666	299,666
Public safety	-	-	1,350	1,350
Streets	-	-	42,293	42,293
Tourism	-	71,212	-	71,212
Assigned to:				
Public safety	-	-	212,986	212,986
Unassigned:				
General fund	17,388	-	-	17,388
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>17,388</u>	<u>71,212</u>	<u>556,295</u>	<u>644,895</u>
Total Liabilities and Fund Balances	<u><u>\$ 99,044</u></u>	<u><u>\$ 71,212</u></u>	<u><u>\$ 561,380</u></u>	<u><u>\$ 731,636</u></u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

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Fund Balances - Total Governmental Funds **\$ 644,895**

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	3,915,449
Less: accumulated depreciation	(2,027,636)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(246,701)
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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.	(6,840)
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Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Delinquent property taxes	<u>18,693</u>
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Net Assets of Governmental Activities	<u><u>\$ 2,297,860</u></u>
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CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

7

	<u>General Fund</u>	<u>Tourism and Planning</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
Property	\$ 180,375	\$ -	\$ -	\$ 180,375
Insurance premium	336,613	-	-	336,613
Occupational taxes and licenses	345,235	-	-	345,235
Motor vehicle	15,866	-	-	15,866
Telecom	6,922	-	-	6,922
Fire	-	-	21,938	21,938
Restaurant	-	168,319	-	168,319
Motel	-	12,782	-	12,782
E-911	73,843	-	-	73,843
Shelter income	-	1,545	-	1,545
Wireless collections	-	-	97,184	97,184
Administrative	248,112	-	-	248,112
Licenses and permits	5,300	-	-	5,300
Intergovernmental revenues	9,117	-	136,702	145,819
Charges for garbage services	231,335	-	-	231,335
Rental income	18,893	-	-	18,893
Fines and forfeits	3,315	-	-	3,315
Interest income	648	167	5,089	5,904
Contributions	1,378	-	-	1,378
Miscellaneous revenues	4,338	20	2,500	6,858
Total revenues	<u>1,481,290</u>	<u>182,833</u>	<u>263,413</u>	<u>1,927,536</u>
Expenditures:				
General government	557,047	-	-	557,047
Public safety	917,133	-	58,679	975,812
Streets	61,369	-	42,537	103,906
Tourism and planning	-	149,472	-	149,472
Debt service				
Principal retirement	-	-	50,062	50,062
Interest	-	-	16,599	16,599
Capital outlay	-	-	51,614	51,614
Total expenditures	<u>1,535,549</u>	<u>149,472</u>	<u>219,491</u>	<u>1,904,512</u>
Excess (deficiency) of revenues over expenditures	<u>(54,259)</u>	<u>33,361</u>	<u>43,922</u>	<u>23,024</u>
Other financing sources (uses):				
Operating transfers in	120,548	-	95,337	215,885
Operating transfers out	<u>(78,214)</u>	<u>(17,123)</u>	<u>(120,548)</u>	<u>(215,885)</u>
Total other financing sources (uses)	<u>42,334</u>	<u>(17,123)</u>	<u>(25,211)</u>	<u>-</u>
Net change in fund balances	<u>(11,925)</u>	<u>16,238</u>	<u>18,711</u>	<u>23,024</u>
Fund balances - beginning	<u>29,313</u>	<u>54,974</u>	<u>537,584</u>	<u>621,871</u>
Fund balances - ending	<u>\$ 17,388</u>	<u>\$ 71,212</u>	<u>\$ 556,295</u>	<u>\$ 644,895</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, 2011**

8

Net Change in Fund Balances - Total Governmental Funds **\$ 23,024**

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	51,614
Depreciation expense	(261,688)

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

Increase/(decrease) in property taxes	3,371
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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.

570

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

Loans payable	<u>50,062</u>
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Change in Net Assets of Governmental Activities	<u>\$(133,047)</u>
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See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITY
JUNE 30, 2011**

9

	<u>Water, Sewer, Gas</u>
ASSETS	
Current assets:	
Cash	\$ 251,704
Accounts receivable, no allowance considered necessary	202,042
Interest receivable	106
Unbilled revenues	90,690
Inventory	<u>64,658</u>
Total current assets	<u>609,200</u>
Non-current assets:	
Restricted assets:	
Cash	202,737
Certificate of deposits	<u>73,996</u>
Total restricted assets	<u>276,733</u>
Utility Plant:	
Plant in service	21,864,897
Less accumulated depreciation	<u>(8,558,416)</u>
	13,306,481
Construction work in progress	<u>-</u>
Net utility plant	<u>13,306,481</u>
Other non-current assets:	
Bond issuance costs, net	<u>38,328</u>
Total other non-current assets	<u>38,328</u>
Total assets	<u><u>\$ 14,230,742</u></u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS (Continued)
BUSINESS-TYPE ACTIVITY
JUNE 30, 2011

10

	<u>Water, Sewer, Gas</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable - trade	\$ 72,717
Accrued payroll	18,727
Accrued payroll taxes	3,250
Accrued vacation	41,328
Accrued interest payable	21,196
Other accrued liabilities	14,243
Current portion of long-term liabilities	<u>140,829</u>
Total current liabilities	<u>312,290</u>
Long-term liabilities:	
Long-term debt	4,137,494
Unamortized discount	<u>(9,957)</u>
	4,127,537
Less current portion	<u>(140,829)</u>
Total long-term liabilities	<u>3,986,708</u>
Total liabilities	<u>4,298,998</u>
Net assets:	
Investments in capital assets, net of related debt	9,178,944
Restricted for:	
Debt service	64,729
Depreciation	212,004
Unrestricted	<u>476,067</u>
Total net assets	<u>9,931,744</u>
Total liabilities and net assets	<u><u>\$ 14,230,742</u></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, 2011**

11

	<u>Water, Sewer, Gas</u>
Operating revenues:	
Sewer revenues	\$ 827,385
Water revenues	1,085,714
Gas revenues	618,608
Other operating revenues	<u>62,963</u>
Total operating revenues	2,594,670
Cost of sales - gas purchases	<u>304,190</u>
Net operating revenues	<u>2,290,480</u>
Operating expenses:	
Sewer	1,049,240
Water	1,260,321
Gas	<u>212,977</u>
Total operating expenses	<u>2,522,538</u>
Utility operating income (loss)	<u>(232,058)</u>
Non-operating revenues (expenses):	
Interest income	3,537
Interest expense	(167,838)
Amortization of bond issue costs	<u>(954)</u>
Total non-operating revenues (expenses)	<u>(165,255)</u>
Net income (loss) before contributions from (to)	(397,313)
Contributions in aid of construction	<u>114,791</u>
Change in net assets	(282,522)
Net assets, beginning of year	<u>10,214,266</u>
Net assets, end of year	<u>\$ 9,931,744</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2011**

12

	<u>Water, Sewer, Gas</u>
Cash flows from operating activities:	
Cash inflows:	
Payments received from customers	\$ 2,536,427
Total cash provided	<u>2,536,427</u>
Cash outflows:	
Payments for salaries and benefits	734,203
Payments to suppliers for goods and services	<u>1,456,400</u>
Total cash used	<u>2,190,603</u>
Net cash provided (used) by operating activities	<u>345,824</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(895,671)
Capital contributions received	88,983
Proceeds from issuance of debt	729,961
Payment of debt issuance costs	(25,937)
Principal payments on long-term debt	(105,142)
Interest paid on long-term debt	<u>(168,155)</u>
Net cash provided (used) by capital and related financing activities	<u>(375,961)</u>
Cash flows from investing activities:	
Interest received	<u>3,521</u>
Net cash provided (used) by investing activities	<u>3,521</u>
Net cash inflow (outflow) from all activities	(26,616)
Cash and cash equivalents at beginning of period	<u>555,053</u>
Cash and cash equivalents at end of period	<u><u>\$ 528,437</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, 2011**

13

	<u>Water, Sewer, Gas</u>
Reconciliation of utility operating income to net cash provided by operating activities:	
Utility operating income	\$ (232,058)
Depreciation	639,437
Bad debt expense	6,511
(Increase) decrease in:	
Accounts receivable	(53,150)
Unbilled revenue	(11,604)
Inventory	(27,173)
Increase (decrease) in:	
Accounts payable	13,661
Accrued liabilities and other liabilities	10,200
Net cash provided (used) by operating activities	<u><u>\$ 345,824</u></u>
Schedule of cash and cash equivalents:	
Beginning of period:	
Unrestricted cash	\$ 196,967
Restricted cash	358,086
	<u><u>\$ 555,053</u></u>
End of period:	
Unrestricted cash	\$ 251,704
Restricted cash	276,733
	<u><u>\$ 528,437</u></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 property included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

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

General Fund –

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

Debt Service Fund –

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

Municipal Road Aid Fund –

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

Tourism and Planning Commission Fund –

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CMRS Fund –

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

Fire Tax Fund –

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

Police Incentive Fund –

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

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

Water, Sewer, and Gas Fund –

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

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

C. Measurement Focus/Basis of Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Budgetary Control

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

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

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

E. Cash and Investments

The City considers all cash, certificates of deposit, and savings to be cash equivalents.

F. Prepaid Items

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

G. Inventory of Supplies

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

H. Interfund Activity

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Bond Discounts and Issue Costs

Bond issue costs are being amortized over the life of the bonds using the straight-line method. Bond discounts are being amortized over the life of the bonds using the effective interest method.

J. Capital Assets

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

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

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

K. Compensated Absences

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

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

L. Net 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fund Equity

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

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

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

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

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

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

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, 2011 was \$1,149,071; the City's total payroll was \$1,203,980.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (6 percent for newly hired employees) 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 contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 16.93% for all covered employees. The contribution requirement for the year ended June 30, 2011 was \$253,272, which consisted of \$194,538 from the City and \$58,734 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. DEPOSITS AND INVESTMENTS

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

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

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

Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized.

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Deposits categorized by level of risk at June 30, 2011 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$1,223,278</u>	<u>\$250,000</u>	<u>\$973,278</u>	<u>\$ -</u>	<u>\$1,221,886</u>

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

NOTE 3. PROPERTY TAXES

Property taxes for fiscal year 2010 were levied on \$242,634,935 the assessed valuation of property and bank deposits located in Morgan County as of the preceding January 1, the lien date. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided. A reserve for uncollectible property taxes is recorded for the amount uncollected at year end. The due date and collection periods for property taxes are as follows:

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

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, consisted of the following:

Governmental Activities

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 210,136	\$ -	\$ -	\$ 210,136
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>210,136</u>	<u>-</u>	<u>-</u>	<u>210,136</u>

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:

Buildings and improvements	585,359	-	-	585,359
Improvements other than buildings	688,926	-	-	688,926
Infrastructure	476,472	51,614	-	528,086
Automobiles and trucks	674,359	-	-	674,359
Machinery and equipment	<u>1,228,583</u>	<u>-</u>	<u>-</u>	<u>1,228,583</u>
Total capital assets being depreciated	3,653,699	51,614	-	3,705,313

Less accumulated depreciation for:

Buildings and improvements	(202,992)	(12,583)	-	(215,575)
Improvements other than buildings	(372,897)	(45,258)	-	(418,155)
Infrastructure	(170,859)	(50,228)	-	(221,087)
Automobiles and trucks	(353,708)	(55,491)	-	(409,199)
Machinery and equipment	<u>(665,492)</u>	<u>(98,128)</u>	<u>-</u>	<u>(763,620)</u>
Total accumulated depreciation	<u>(1,765,948)</u>	<u>(261,688)</u>	<u>-</u>	<u>(2,027,636)</u>
Total capital assets being depreciated, net	<u>1,887,751</u>	<u>(210,074)</u>	<u>-</u>	<u>1,677,677</u>

Governmental activities capital assets, net \$2,097,887 (\$210,074) \$ - \$1,887,813

Depreciation was charged to governmental functions as follows:

General government	\$ 11,486
Public safety	132,570
Tourism and planning	48,306
Streets	<u>69,326</u>
Total	<u>\$261,688</u>

Business-Type Activities

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 63,914	\$ -	\$ -	\$ 63,914
Construction in progress	<u>263,532</u>	<u>24,815</u>	<u>288,347</u>	<u>-</u>
Total capital assets, not being depreciated	<u>327,446</u>	<u>24,815</u>	<u>288,347</u>	<u>63,914</u>
Capital assets, being depreciated:				
Leasehold improvements	1,000	-	-	1,000
Machinery and equipment	804,213	142,203	17,781	928,635
Water plant and water system	9,369,503	43,168	-	9,412,671
Sewer plant and sewer system	10,284,313	288,347	-	10,572,660
Gas system	<u>-</u>	<u>886,017</u>	<u>-</u>	<u>886,017</u>
Total capital assets being depreciated	20,459,029	1,359,735	17,781	21,800,983

NOTE 4. CAPITAL ASSETS (Continued)

Less accumulated depreciation for:

Leasehold improvements	(595)	(31)	-	(626)
Machinery and equipment	(600,597)	(53,345)	(17,781)	(636,161)
Water plant and water system	(3,504,461)	(272,462)	-	(3,776,923)
Sewer plant and sewer system	(3,831,107)	(304,739)	-	(4,135,846)
Gas system	-	(8,860)	-	(8,860)
Total accumulated depreciation	<u>(7,936,760)</u>	<u>(639,437)</u>	<u>(17,781)</u>	<u>(8,558,416)</u>
Total capital assets being depreciated, net	<u>12,522,269</u>	<u>720,298</u>	<u>-</u>	<u>13,242,567</u>
Total utilities capital assets, net	<u>\$12,849,715</u>	<u>\$745,113</u>	<u>\$ 288,347</u>	<u>\$13,306,481</u>

NOTE 5: 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%.
- 7) 2010 Series - \$740,000 Gas revenue bonds, maturing through January 1, 2040, with interest at variable rates.

Principal payments are due annually for water and sewer revenue bonds on November 1, and interest payments are due semi-annually on May 1, and November 1. Principal and interest is due monthly for the gas revenue bond.

Total bond interest expense for the year ended June 30, 2011, amounted to \$147,477.

The Water, Sewer, and Gas Proprietary Fund notes payable at June 30, 2011 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
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NOTE 5: LONG-TERM DEBT (Continued)

During fiscal year June 30, 2011, the City assumed \$210,646 of debt on the purchase of Elam Utility Company, Inc. A loan with Commercial Bank had a balance of \$30,096 and a loan with Community Trust Bank had a balance of \$180,550. The Commercial Bank loan bears interest at 5.25% and is anticipated to be paid in full during fiscal year June 30, 2012. The Community Trust Bank loan bears interest at 7.50% and is payable in monthly installments of \$2,991 with final payment due on October 22, 2016.

	<u>Amount Outstanding 6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amounts Due Within One Year</u>
Bond payable – 1988 issue	\$ 414,000	\$ -	(\$ 14,000)	\$ 400,000	\$ 14,000
Bond payable – 1998 issue	409,000	-	(6,000)	403,000	6,500
Bond payable – 2001 issue (A)	910,000	-	(17,000)	893,000	17,000
Bond payable – 2001 issue (B)	260,500	-	(4,000)	256,500	4,000
Bond payable – 2006 issue	783,000	-	(9,500)	773,500	10,000
Bond payable – 2007 issue	391,000	-	(5,000)	386,000	5,000
Bond payable – 2010 issue	-	740,000	(6,250)	733,750	15,000
Note payable – KIA	124,490	-	(17,152)	107,338	17,359
Note payable – Commercial Bank	-	30,096	(3,060)	27,036	27,036
Note payable – Community Trust Bank	<u>-</u>	<u>180,550</u>	<u>(23,180)</u>	<u>157,370</u>	<u>24,934</u>
Long-Term Debt	<u>\$3,291,990</u>	<u>\$950,646</u>	<u>(\$105,142)</u>	<u>\$4,137,494</u>	<u>\$140,829</u>

Principal and interest payments to be made on all long-term debt at June 30, 2011, 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>
2012	\$ 71,500	\$ 69,329	\$ 140,829	\$ 165,288	\$ 306,117
2013	75,000	44,438	119,438	160,427	279,865
2014	77,000	46,735	123,735	155,294	279,029
2015	79,500	49,197	128,697	149,838	278,535
2016	82,000	51,836	133,836	144,048	277,884
2017-2021	478,583	30,209	508,792	653,887	1,162,679
2022-2026	581,583	-	581,583	548,272	1,129,855
2027-2031	648,083	-	648,083	417,974	1,066,057
2032-2036	675,084	-	675,084	289,051	964,135
2037-2041	738,917	-	738,917	140,759	879,676
2042-2046	<u>338,500</u>	<u>-</u>	<u>338,500</u>	<u>30,509</u>	<u>369,009</u>
	<u>\$3,845,750</u>	<u>\$291,744</u>	<u>\$4,137,494</u>	<u>\$2,855,347</u>	<u>\$6,992,841</u>

NOTE 5: LONG-TERM DEBT (Continued)

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, 2011, amounted to \$14,820.

The City's notes payable at June 30, 2011 consisted of the following:

- 1) 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 6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amounts Due Within One Year</u>
Bond payable – series A	\$184,000	\$ -	\$(14,000)	\$170,000	\$15,000
Bond payable – series B	63,000	-	(5,000)	58,000	5,000
Police Cars (KLC)	32,925	-	(14,224)	18,701	14,876
Butcher Property (Commercial Bank)	16,839	-	(16,839)	-	-
Long-Term Debt	<u>\$296,764</u>	<u>\$ -</u>	<u>\$(50,063)</u>	<u>\$246,701</u>	<u>\$34,876</u>

Principal and interest payments to be made on all long-term debt at June 30, 2011, 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>
2012	\$20,000	\$14,876	\$ 34,876	\$14,039	\$ 48,915
2013	20,500	3,825	24,325	12,533	36,858
2014	22,500	-	22,500	11,250	33,750
2015	24,000	-	24,000	9,900	33,900
2016	25,500	-	25,500	8,460	33,960
2017-2020	<u>115,500</u>	<u>-</u>	<u>115,500</u>	<u>17,749</u>	<u>133,249</u>
	<u>\$228,000</u>	<u>\$18,701</u>	<u>\$246,701</u>	<u>\$73,931</u>	<u>\$320,632</u>

NOTE 5: 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, 2011 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and investments.

NOTE 6 – 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 \$46,834 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 \$13,871 is being held in an interest bearing account at the Commercial Bank of West Liberty.

General Fund Bond Sinking Fund in the amount of \$220,628 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 \$76,960 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 \$212,004.

NOTE 7 – 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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 9 - 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 \$2,167 of computer equipment and supplies from West Liberty Electronics, which is owned by John May, and the City purchased \$334 of supplies from Seasons Florist and Gift Shop, which is owned by Belinda Jordan.

For the period dated June 30, 2011, the City's Utility Fund paid the City's General Fund \$238,975 for office rent and administrative expenses.

NOTE 10 – SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through August 22, 2011, the date the financial statements were available to be issued.

AUDITOR'S REPORT



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

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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 Jim Rupe, Mayor
Members of the City Council
City of West Liberty, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Liberty, Kentucky as of and for the year ended June 30, 2011 which collectively comprise the City of West Liberty, Kentucky's basic financial statements and have issued our report thereon dated August 22, 2011, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. 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

Management of the City of West Liberty, Kentucky is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in 2011-1 and 2011-2 below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in 2011-1 to be a material weakness.

2011-1 Segregation of Duties

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

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

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

Recommendation: Compensating controls should be designed and implemented as effectively as possible to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Management Comment: Management of the City concurs with the finding and plans to develop compensating controls that will reduce to the lowest level any chance of misappropriation of assets and/or misrepresentation of financial records.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in 2011-2 to be a significant deficiency.

2011-2 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.

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Liberty, Kentucky's financial statements are free 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described below:

2011-3 Bond Covenant Reserves

Condition: The City's operations and maintenance, depreciation, and debt service reserves for water and sewer were underfunded as of June 30, 2011.

Criteria: The City should have an operations and maintenance reserve on hand to cover anticipated water and sewer expenditures for a two month period pursuant to the City's annual budget. Also, the City should have a depreciation reserve and debt service reserve sufficiently funded per bond covenants.

Cause of Condition: The City's expenses to operate the water and sewer system in past years had outpaced revenue.

Recommendation: The City should begin funding the reserves back to required levels.

Management Comment: Management of the City stated that user rates will be reviewed annually and adjusted if necessary to ensure operating integrity and the reserves will be funded back to required levels as funds become available.

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

Hells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 22, 2011

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

31

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property taxes	\$ 218,000	\$ 180,375	\$ (37,625)
Taxes on insurance premiums	348,000	336,613	(11,387)
Occupational taxes and licenses	310,000	345,235	35,235
E911	72,800	73,843	1,043
Unloading license	-	5,100	5,100
Building permits	-	200	200
Law enforcement fees	15,000	9,117	(5,883)
Motor vehicle tax	13,500	15,866	2,366
Telecom tax	9,000	6,922	(2,078)
Interest	-	648	648
Rent	18,000	18,893	893
Garbage fees	230,000	231,335	1,335
Fines and forfeits	-	3,315	3,315
Administrative	220,000	248,112	28,112
Contributions	-	1,378	1,378
Other receipts	12,000	4,338	(7,662)
	<u>1,466,300</u>	<u>1,481,290</u>	<u>14,990</u>
Total Revenues			
	<u>1,466,300</u>	<u>1,481,290</u>	<u>14,990</u>
Expenditures:			
General government:			
Health and life insurance	45,500	49,795	(4,295)
Insurance	37,000	42,851	(5,851)
Garbage fees	218,500	216,254	2,246
Dues and subscriptions	7,500	1,626	5,874
Materials and supplies	1,500	788	712
Janitorial supplies	1,000	1,038	(38)
Mayor and city council fees	10,000	8,100	1,900
Other expenses	6,200	19,479	(13,279)
Office expenses	7,500	10,642	(3,142)
Professional fees	12,000	13,866	(1,866)
Postage	2,000	2,466	(466)
Repairs and maintenance	15,000	2,500	12,500
Retirement	14,000	18,579	(4,579)
Salaries and wages	135,000	133,747	1,253
Payroll taxes	8,000	11,451	(3,451)
Telephone and utilities	30,000	21,599	8,401
Travel and training	1,500	2,266	(766)
Capital outlays	50,000	-	50,000
	<u>602,200</u>	<u>557,047</u>	<u>45,153</u>
Total General Government			
	<u>602,200</u>	<u>557,047</u>	<u>45,153</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, 2011

32

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:			
Automobile	20,000	21,975	(1,975)
Health and life insurance	42,000	40,911	1,089
Insurance	36,000	38,321	(2,321)
Dues and subscriptions	2,000	1,370	630
Janitorial supplies	1,000	1,009	(9)
Materials and supplies	20,000	13,149	6,851
Other expenses	2,000	3,476	(1,476)
Office expenses	5,000	7,379	(2,379)
Professional fees	6,000	5,777	223
Repairs and maintenance	15,000	8,992	6,008
Retirement	54,000	45,899	8,101
Salaries and wages	275,000	248,190	26,810
Payroll tax	16,000	21,511	(5,511)
Telephone and utilities	13,500	16,574	(3,074)
Travel and training	7,500	4,590	2,910
Uniform allowance	6,000	3,912	2,088
Capital outlays	30,000	-	30,000
Total Police	<u>551,000</u>	<u>483,035</u>	<u>67,965</u>
Fire:			
Automobile	2,250	1,715	535
Insurance	7,500	8,185	(685)
Materials and supplies	5,000	12,004	(7,004)
Other expenses	15,000	6,476	8,524
Repairs and maintenance	15,000	10,861	4,139
Telephone and utilities	5,000	4,367	633
Travel and training	500	2,533	(2,033)
Total Fire	<u>50,250</u>	<u>46,141</u>	<u>4,109</u>
Dispatch:			
Automobile	2,500	1,628	872
Health and life insurance	45,500	38,878	6,622
Insurance	5,400	2,034	3,366
Dues and subscriptions	6,500	7,995	(1,495)
Janitorial supplies	500	1,106	(606)
Materials and supplies	1,500	415	1,085
Other expenses	3,700	1,376	2,324
Office expenses	2,500	3,696	(1,196)
Professional fees	7,500	5,258	2,242
Repairs and maintenance	15,000	28,735	(13,735)

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

33

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Retirement	40,000	38,708	1,292
Salaries and wages	215,000	226,337	(11,337)
Payroll tax	17,500	18,425	(925)
Telephone and utilities	10,000	11,155	(1,155)
Travel and training	3,500	2,211	1,289
Capital outlays	20,000	-	20,000
Total Dispatch	<u>396,600</u>	<u>387,957</u>	<u>8,643</u>
Street:			
Automobile	3,000	5,400	(2,400)
Insurance	4,000	3,013	987
Other expenses	-	11,566	(11,566)
Materials and supplies	10,000	8,298	1,702
Repairs and maintenance	5,000	2,641	2,359
Utilities and telephone	18,000	30,451	(12,451)
Capital outlays	10,000	-	10,000
Total Street	<u>50,000</u>	<u>61,369</u>	<u>(11,369)</u>
Total Expenditures	<u>1,650,050</u>	<u>1,535,549</u>	<u>114,501</u>
Other Financing Sources/(Uses):			
Operating transfers	175,000	42,334	(132,666)
Total Other Financing Uses	<u>175,000</u>	<u>42,334</u>	<u>(132,666)</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (8,750)</u>	(11,925)	<u>\$ (3,175)</u>
Fund Balance at Beginning of Year		<u>29,313</u>	
Fund Balance at End of Year		<u>\$ 17,388</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, 2011**

34

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restaurant tax	\$ 140,000	\$ 168,319	\$ 28,319
Motel tax	11,000	12,782	1,782
Shelter income	2,000	1,545	(455)
Interest income	200	167	(33)
Other receipts	-	20	20
Total Revenues	<u>153,200</u>	<u>182,833</u>	<u>29,633</u>
Expenditures:			
Administrative	9,000	9,136	(136)
Donations	94,300	101,612	(7,312)
Dues and subscriptions	-	848	(848)
Materials and supplies	-	8,651	(8,651)
Other expenses	3,500	5,773	(2,273)
Office expenses	-	26	(26)
Salaries and wages	-	17,769	(17,769)
Repairs and maintenance	20,000	5,657	14,343
Total Expenditures	<u>126,800</u>	<u>149,472</u>	<u>(22,672)</u>
Other Financing Sources/(Uses):			
Operating transfers	<u>(26,400)</u>	<u>(17,123)</u>	<u>9,277</u>
Total Other Financing Uses	<u>(26,400)</u>	<u>(17,123)</u>	<u>9,277</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ -</u>	<u>16,238</u>	<u>\$ 16,238</u>
Fund Balance at Beginning of Year		<u>54,974</u>	
Fund Balance at End of Year		<u>\$ 71,212</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, 2011**

35

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
ASSETS						
Cash and cash equivalents	\$297,588	\$ 46,672	\$ -	\$ 42,293	\$ 4,018	\$ 390,571
Certificates of deposit	-	165,949	-	-	-	165,949
Due from general fund	753	-	-	-	-	753
Receivables	-	365	2,417	-	-	2,782
Other assets	1,325	-	-	-	-	1,325
Total Assets	\$299,666	\$212,986	\$ 2,417	\$ 42,293	\$ 4,018	\$ 561,380
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,668	\$ 2,668
Other accrued liabilities	-	-	2,417	-	-	2,417
Total Liabilities	-	-	2,417	-	2,668	5,085
Fund Balances:						
Restricted for:						
Debt service	299,666	-	-	-	-	299,666
Public safety	-	-	-	-	1,350	1,350
Streets	-	-	-	42,293	-	42,293
Assigned to:						
Public safety	-	212,986	-	-	-	212,986
Total Fund Balances	299,666	212,986	-	42,293	1,350	556,295
Total Liabilities and Fund Balances	\$299,666	\$212,986	\$ 2,417	\$ 42,293	\$ 4,018	\$ 561,380

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, 2011**

36

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
Revenues:						
Taxes	\$ -	\$ 21,938	\$ -	\$ -	\$ -	\$ 21,938
Wireless collections	-	-	-	-	97,184	97,184
Intergovernmental revenues	-	7,750	26,967	101,985	-	136,702
Other receipts	-	-	-	2,500	-	2,500
Investment income	2,318	2,453	-	292	26	5,089
Total revenues	2,318	32,141	26,967	104,777	97,210	263,413
Expenditures:						
Public safety	-	-	26,967	-	31,712	58,679
Streets	-	-	-	42,537	-	42,537
Capital outlays	-	-	-	51,614	-	51,614
Debt service:						
Principal retirement	50,062	-	-	-	-	50,062
Interest	16,599	-	-	-	-	16,599
Total expenditures	66,661	-	26,967	94,151	31,712	219,491
Excess (deficiency) of revenues over expenditures	(64,343)	32,141	-	10,626	65,498	43,922
Other financing sources (uses):						
Operating transfers in	82,166	-	-	13,171	-	95,337
Operating transfers out	-	(20,927)	-	(10,267)	(89,354)	(120,548)
Total other financing sources (uses)	82,166	(20,927)	-	2,904	(89,354)	(25,211)
Net change in fund balances	17,823	11,214	-	13,530	(23,856)	18,711
Fund balances - beginning	281,843	201,772	-	28,763	25,206	537,584
Fund balances - ending	\$299,666	\$212,986	\$ -	\$ 42,293	\$ 1,350	\$ 556,295

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, 2011**

37

	<u>SEWER</u>	<u>WATER</u>	<u>GAS</u>	<u>TOTAL</u>
Administrative	\$ 95,682	\$ 95,682	\$ 47,611	\$ 238,975
Automobile	8,063	13,952	3,430	25,445
Bad Debt	2,170	4,341	-	6,511
Chemicals	62,317	143,921	-	206,238
Depreciation	326,075	303,703	9,659	639,437
Dues and Subscriptions	1,448	4,535	992	6,975
Health and Life Insurance	48,725	37,989	7,781	94,495
Insurance	38,163	42,600	18,386	99,149
Janitorial Supplies	311	59	-	370
Materials and Supplies	34,081	48,803	19,865	102,749
Miscellaneous	1,999	1,196	927	4,122
Office Expenses	1,563	2,615	1,548	5,726
Postage	1,470	2,408	1,541	5,419
Professional Fees	6,610	4,577	6,429	17,616
Repairs and Maintenance	44,664	89,165	2,310	136,139
Retirement	41,700	39,006	10,645	91,351
Salaries and Wages	199,716	247,310	66,406	513,432
Payroll Taxes	19,453	19,866	4,793	44,112
Telephone and Utilities	99,613	148,401	702	248,716
Testing	12,030	5,918	-	17,948
Travel and Training	229	2,429	9,280	11,938
Uniform Allowance	3,158	1,845	672	5,675
TOTAL OPERATING EXPENSES	<u><u>\$ 1,049,240</u></u>	<u><u>\$ 1,260,321</u></u>	<u><u>\$ 212,977</u></u>	<u><u>\$2,522,538</u></u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
June 30, 2011**

38

CITY COUNCIL

<u>NAME</u>	<u>TERM EXPIRES</u>
Belinda Jordan	December 31, 2012
Phyllis Keeton	December 31, 2012
John May	December 31, 2012
Dwayne Nickell	December 31, 2012
Tony Smith	December 31, 2012
Mark Walter	December 31, 2012

ADMINISTRATIVE PERSONNEL

<u>NAME</u>	
Jim Rupe	Mayor
Sally Barker	City Clerk
Sharon Lykins	Utilities Clerk
Amy Baldwin	Bookkeeper

**CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF INSURANCE
June 30, 2011**

39

COVERAGE

FIRE AND EXTENDED COVERAGE

Buildings and contents	\$	16,983,703
Scheduled equipment		513,013

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	\$	5,000,000
Hazardous response		5,000,000
Employee benefits liability		5,000,000
Fire damage		100,000
Medical expense		5,000

PUBLIC OFFICIALS' LIABILITY

\$ 5,000,000

LAW ENFORCEMENT LIABILITY

\$ 2,000,000

PUBLIC OFFICIAL BONDS

Jim Rupe	\$	75,000
Sally Barker		120,000
Amy Baldwin		75,000
Sharon Lykins		75,000