

CITY OF LIBERTY
Liberty, Kentucky

FINANCIAL STATEMENTS
June 30, 2010

CONTENTS

Management's Discussion and Analysis	1-8
Independent Auditors' Report.....	9
Government Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	13
Balance Sheet – Proprietary Funds.....	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	15
Statement of Cash Flows - Proprietary Funds.....	16
Notes to Financial Statements.....	17-27
Required Supplemental Information	
Budget Information.....	28-31
Combining Balance Sheet – Nonmajor Governmental Funds	32
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	33
Reports in Accordance with Government Auditing Standards	34
Single Audit Reporting	
Report in Accordance with OMB A-133	35-36
Schedule of Expenditures of Federal Awards.....	37
Schedule of Findings and Questioned Costs.....	38

City of Liberty, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Liberty's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read in conjunction with the auditors' report on page 9 and the City's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The City's net assets increased in the governmental activities and in the business-type activities. The net assets of the governmental activities increased by \$1,072,646, and the net assets of the business-type activities increased to \$11,459,874, which was a 6.5 percent increase from the previous year.
- In the City's governmental activities, revenues increased by \$732,267, or 81.9 percent, and expenses decreased by 7.5 percent to \$887,284. In the business-type activities, revenues decreased to \$3,933,981 which is a decrease of 40.6 percent, while expenses decreased by .6 percent to \$2,927,844.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Current and Other Assets	\$ 600,831	\$ 409,733	\$ 2,903,437	\$ 3,475,214	\$ 3,504,268	\$ 3,884,947
Capital Assets	<u>2,446,960</u>	<u>1,604,261</u>	<u>15,146,770</u>	<u>12,403,237</u>	<u>17,593,730</u>	<u>14,007,498</u>
Total Assets	<u>3,047,791</u>	<u>2,013,994</u>	<u>18,050,207</u>	<u>15,878,451</u>	<u>21,097,998</u>	<u>17,892,445</u>
Long-Term Debt Outstanding	158,303	184,278	5,969,695	3,439,400	6,127,998	3,623,678
Current Liabilities	<u>65,940</u>	<u>78,814</u>	<u>620,638</u>	<u>1,677,412</u>	<u>686,578</u>	<u>1,756,226</u>
Total Liabilities	<u>224,243</u>	<u>263,092</u>	<u>6,590,333</u>	<u>5,116,812</u>	<u>6,814,576</u>	<u>5,379,904</u>
Net Assets:						
Invested in Capital Assets, net of related debt	2,262,682	1,395,095	9,018,506	8,842,937	11,281,188	10,238,032
Restricted	141,720	78,906	927,351	902,149	1,069,071	981,055
Unrestricted	<u>419,146</u>	<u>276,901</u>	<u>1,514,017</u>	<u>1,016,553</u>	<u>1,933,163</u>	<u>1,293,454</u>
Total Net Assets	<u>\$ 2,823,548</u>	<u>\$ 1,750,902</u>	<u>\$ 11,459,874</u>	<u>\$ 10,761,639</u>	<u>\$ 14,283,422</u>	<u>\$ 12,512,541</u>

The net assets of the City's governmental activities increased from \$1,750,902 in 2009 to \$2,823,548 in 2010. The net assets of the business-type activities increased from \$10,761,639 to \$11,459,874 in 2010, which is a 6.5 percent increase. The net assets from one activity generally cannot be used to make up for any deficits in the other activities.

NET ASSETS, continued

Table A-2

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 2,683	\$ 3,310	\$ 2,445,768	\$ 2,555,808	\$ 2,448,451	\$ 2,559,118
Operating Grants & Contributions	278,035	133,210	-	-	278,035	133,210
Capital Grants & Contributions	444,139	-	1,402,883	3,962,352	1,847,022	3,962,352
<u>General Revenue</u>						
Taxes	242,062	233,948	-	-	242,062	233,948
License fees	254,993	268,523	-	-	254,993	268,523
Permits	17,188	28,493	-	-	17,188	28,493
Other Grants and Contributions	149,924	22,893	-	-	149,924	22,893
Investment Earnings	9,748	11,156	85,330	101,193	95,078	112,349
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	92,057	57,029	-	-	92,057	57,029
Total Revenue	<u>1,625,829</u>	<u>893,562</u>	<u>3,933,981</u>	<u>6,619,353</u>	<u>5,559,810</u>	<u>7,512,915</u>
Program Expenses						
General Government	365,220	304,410	-	-	365,220	304,410
Public Safety - Police	340,715	362,740	-	-	340,715	362,740
Public Safety - Fire	111,265	171,386	-	-	111,265	171,386
Streets Department	60,577	110,613	-	-	60,577	110,613
Interest on Long-term Debt	9,507	10,545	-	-	9,507	10,545
Sewer and Water	-	-	2,927,844	2,946,864	2,927,844	2,946,864
Total Program Expenses	<u>887,284</u>	<u>959,694</u>	<u>2,927,844</u>	<u>2,946,864</u>	<u>3,815,128</u>	<u>3,906,558</u>
Other Changes						
Donation of asset	15,000	150,000	-	-	15,000	150,000
Transfers	326,198	221,884	(326,198)	(221,884)	-	-
Loss on sale of assets	(7,097)	(17,158)	18,296	-	11,199	(17,158)
Total Other Changes	<u>334,101</u>	<u>354,726</u>	<u>(307,902)</u>	<u>(221,884)</u>	<u>26,199</u>	<u>132,842</u>
Change In Net Assets	<u>\$ 1,072,646</u>	<u>\$ 288,594</u>	<u>\$ 698,235</u>	<u>\$ 3,450,605</u>	<u>\$ 1,770,881</u>	<u>\$ 3,739,199</u>

The City's total revenue decreased by 26.0 percent and the total cost of all programs reflected a decrease of 2.3 percent. On the following page is a more in-depth description of the revenues and expenses of the governmental and business-type activities.

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities - Revenues & Expenditures

	<u>FY 2010</u>	<u>FY2009</u>	<u>Change</u>
Taxes	\$ 242,062	\$ 233,948	\$ 8,114
Licenses and permits	272,181	297,016	(24,835)
Fines and Forfeits	2,668	2,661	7
Intergovernmental	716,956	156,103	560,853
Charges for Services	2,683	3,310	(627)
Other Revenues	234,137	200,523	33,614
Sale of asset	-	-	-
Total Revenues	<u>1,470,687</u>	<u>893,561</u>	<u>577,126</u>
General Government	\$ 336,974	\$ 281,890	\$ 55,084
Public Safety	404,895	488,986	(84,091)
Streets Department	60,577	110,613	(50,036)
Capital Outlay	920,452	190,680	729,772
Debt Service	<u>34,395</u>	<u>34,395</u>	-
Total Expenditures	<u>1,757,293</u>	<u>1,106,564</u>	<u>650,729</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (286,606)</u>	<u>\$ (213,003)</u>	<u>\$ (73,603)</u>

Revenues for the City's governmental activities increased by 64.6 percent, while total expenditures increased by 58.8 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) increased by \$73,603. The City's major sources of revenue in the governmental activities are intergovernmental (48.7 percent), licenses and permits (18.5 percent), taxes (16.5 percent) and other revenue (15.9 percent). These revenue sources increased 65.1 percent in 2010. During the year ended June 30, 2010, the intergovernmental revenues included \$382,587 from a grant for the Liberty Crossing project and \$149,924 of local economic assistance. The major change in expenditures in the governmental activities was a increase in capital outlay of \$729,772 which is discussed on page 7.

BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, revenues for the City decreased to \$3,933,981, or 40.6 percent, while total expenses decreased .6 percent. The decrease of revenues combined with the decrease of expenses and increase in other changes decreased the change in net assets to \$698,235. The City's major source of revenue in the business-type activities is charges for services, which decreased to \$2,445,768. This revenue source makes up 62.2 percent of total revenues. The capital grants and contributions included grants for the water and sewer system expansion as discussed on page 7.

BUDGET HIGHLIGHTS

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

Table A-4

Condensed Governmental Activities - Revenues and Other Financing Sources

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 241,670	\$ 242,062	\$ 392
Licenses and permits	277,776	272,181	(5,595)
Fines and Forfeitures	2,553	2,668	115
Intergovernmental	816,120	716,956	(99,164)
Charges for Services	3,543	2,683	(860)
Other Revenues	291,879	234,137	(57,742)
Transfers	261,675	326,198	64,523
Sale of Asset	-	10,325	10,325
Total Revenues and Other Financing Sources	<u>\$ 1,895,216</u>	<u>\$1,807,210</u>	<u>\$ (88,006)</u>

Table A-5

Condensed Governmental Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 350,105	\$ 336,974	\$ (13,131)
Public Safety	397,203	404,895	7,692
Streets Department	55,667	60,577	4,910
Debt Service	35,110	34,395	(715)
Capital Outlay	<u>917,370</u>	<u>920,452</u>	<u>3,082</u>
Total Expenditures	<u>\$ 1,755,455</u>	<u>\$1,757,293</u>	<u>\$ 1,838</u>

The City budgeted for a total of \$1,895,216 in revenues and other financing sources for 2010, but ended up having revenues of \$1,807,210, which put the City under the revenue budget by \$88,006. A total of \$1,755,455 was budgeted for expenses, and actual expenditures totaled \$1,757,293 at the end of 2010. The City was over budget on the expenses by \$1,838, as detailed above.

CAPITAL ASSETS

As discussed in Table A-6, the City has a total of \$25,186,698 invested in a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, infrastructure assets, and water and sewer lines. This amount represents a 19.0 percent increase from last year's total investment of \$21,165,256.

The major capital additions in the governmental activities were the land for the Lake Liberty expansion project for \$330,290 and the Liberty Crossing project for \$582,255. The business-type activities major capital additions were the completion of a water plant expansion project for \$6,121,076, water line extensions for \$817,555, a garbage truck for \$163,924 and sewer line extensions for \$71,884.

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>
Land & Improvements	\$ 1,292,761	\$ 358,216	\$ -	\$ -	\$ 1,292,761	\$ 358,216
Construction in Progress	-	89,020	28,000	3,970,769	28,000	4,059,789
Buildings & Improvements	1,089,892	1,080,680	-	-	1,089,892	1,080,680
Vehicles & Equipment	704,784	679,663	-	-	704,784	679,663
Water & Sewer System	-	-	22,071,261	14,986,908	22,071,261	14,986,908
Total Capital Assets	<u>\$3,087,437</u>	<u>\$2,207,579</u>	<u>\$ 22,099,261</u>	<u>\$18,957,677</u>	<u>\$ 25,186,698</u>	<u>\$ 21,165,256</u>

At June 30, 2010, the City had substantially completed all of its water and sewer projects. However, there were two small projects in progress with a cost as of that date of \$28,000.

DEBT

This year the City has \$6,312,542 in debt, a 67.5 percent increase from last year's total of \$3,769,466. The City issued revenue bonds for the water plant expansion project for \$2,540,000 during 2010. The City also entered a lease-purchase agreement for the purchase of the new garbage truck discussed above.

Table A-7

Debt Outstanding at Year End

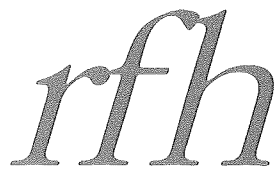
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>
Note Payable	\$ 184,278	\$ 209,166	\$ 148,864	\$ -	\$ 333,142	\$ 209,166
Revenue Bond Payable	-	-	5,979,400	3,560,300	5,979,400	3,560,300
Total Debt Outstanding	<u>\$ 184,278</u>	<u>\$ 209,166</u>	<u>\$ 6,128,264</u>	<u>\$ 3,560,300</u>	<u>\$ 6,312,542</u>	<u>\$ 3,769,466</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2011 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Liberty
Liberty, Kentucky

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Liberty, Kentucky, as of June 30, 2010, and for the year then ended, 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 Liberty, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Liberty, Kentucky, as of June 30, 2010, 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.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 28 through 31 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated December 28, 2010, on our consideration of the City of Liberty's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. 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 and compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Liberty, Kentucky, basic financial statements. The supplemental schedules on pages 32 through 33 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 28, 2010

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government			2009 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash	\$ 57,218	\$ 262,591	\$ 319,809	\$ 384,277
Investments	233,205	1,372,604	1,605,809	1,858,282
Receivables (net)	309,148	155,230	464,378	212,574
Interest receivable	293	14,331	14,624	19,385
Other assets	20,273		20,273	21,806
Grant receivable	-	116,170	116,170	200,514
Internal balances	(19,306)	19,306	-	-
Total current assets	<u>600,831</u>	<u>1,940,232</u>	<u>2,541,063</u>	<u>2,696,838</u>
Noncurrent assets				
Restricted assets				
Cash	-	671,095	671,095	925,061
Investments		267,143	267,143	258,803
Bond issue costs	-	24,967	24,967	4,245
Capital assets				
Construction in progress	-	28,000	28,000	4,059,789
Land and improvements	734,649	-	734,649	358,216
Utility systems, net	-	15,118,770	15,118,770	8,432,468
Depreciable buildings, property, and equipment, net	1,712,311	-	1,712,311	1,157,025
Total noncurrent assets	<u>2,446,960</u>	<u>16,109,975</u>	<u>18,556,935</u>	<u>15,195,607</u>
Total assets	<u>\$ 3,047,791</u>	<u>\$ 18,050,207</u>	<u>\$ 21,097,998</u>	<u>\$ 17,892,445</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 23,803	\$ 88,961	\$ 112,764	\$ 108,923
Accounts payable-construction		113,987	113,987	1,254,840
Accrued liabilities	16,162	61,269	77,431	63,634
Internal balances	-	-	-	-
Customer Deposits	-	154,959	154,959	155,109
Accrued interest payable	-	42,893	42,893	27,932
Current portion of long-term obligations	25,975	158,569	184,544	145,788
Total current liabilities	<u>65,940</u>	<u>620,638</u>	<u>686,578</u>	<u>1,756,226</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	158,303	5,969,695	6,127,998	3,623,678
Total liabilities	<u>224,243</u>	<u>6,590,333</u>	<u>6,814,576</u>	<u>5,379,904</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,262,682	9,018,506	11,281,188	10,238,032
Restricted for other purposes	141,720	927,351	1,069,071	981,055
Unrestricted	419,146	1,514,017	1,933,163	1,293,454
Total net assets	<u>2,823,548</u>	<u>11,459,874</u>	<u>14,283,422</u>	<u>12,512,541</u>
Total liabilities and net assets	<u>\$ 3,047,791</u>	<u>\$ 18,050,207</u>	<u>\$ 21,097,998</u>	<u>\$ 17,892,445</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2009 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 365,220	\$ 1,780	\$ 199,328	\$ 382,587	\$ 218,475	\$ -	\$ 218,475	\$ (270,549)
Public safety-Police	340,715	903	16,440	53,302	(270,070)	-	(270,070)	(343,638)
Public safety-Fire	111,265	-	-	8,250	(103,015)	-	(103,015)	(122,180)
Street department	60,577	-	62,267	-	1,690	-	1,690	(76,262)
Interest on long-term debt	9,507	-	-	-	(9,507)	-	(9,507)	(10,545)
Total governmental activities	887,284	2,683	278,035	444,139	(162,427)	-	(162,427)	(823,174)
Business type activities								
Utility	2,927,844	2,445,768	-	1,402,883	-	920,807	920,807	3,571,296
Total business-type activities	2,927,844	2,445,768	-	1,402,883	-	920,807	920,807	3,571,296
Total primary government	\$ 3,815,128	\$ 2,448,451	\$ 278,035	\$ 1,847,022	(162,427)	920,807	758,380	2,748,122

General revenues

Taxes				
Property taxes, levied for general purposes	242,062	-	242,062	233,948
License fee				
Franchise	67,004	-	67,004	64,965
Insurance premiums	187,989	-	187,989	203,558
Permits				
Building	2,315	-	2,315	3,790
City Stickers	14,873	-	14,873	24,703
Fines and forfeitures	2,668	-	2,668	2,661
Grants and contributions				
not restricted to specific programs	149,924	-	149,924	22,893
Investment earnings	9,748	85,330	95,078	112,349
Management fees	135,000	-	135,000	135,000
Miscellaneous	89,389	-	89,389	54,368
Total general revenues	900,972	85,330	986,302	858,235
Donation of capital asset	15,000	-	15,000	150,000
Gain (loss) on sale of assets	(7,097)	18,296	11,199	(17,158)
Transfers	326,198	(326,198)	-	-
Total general revenues and transfers	1,235,073	(222,572)	1,012,501	991,077
Change in Net Assets	1,072,646	698,235	1,770,881	3,739,199
Net assets-beginning	1,750,902	10,761,639	12,512,541	8,773,342
NET ASSETS-ENDING	\$ 2,823,548	\$ 11,459,874	\$ 14,283,422	\$ 12,512,541

The accompanying notes are an integral
part of the financial statements

**CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	General	Other Governmental Funds	Total Governmental Funds	2009 Totals
ASSETS				
Cash	\$ -	\$ 57,218	\$ 57,218	\$ 120,823
Investments	181,832	51,373	233,205	209,320
Receivables (net)	127,253	26,753	154,006	53,681
Interest receivable	293	-	293	184
Other assets	20,273	-	20,273	21,806
Due from other funds	-	11,162	11,162	-
	<u>\$ 329,651</u>	<u>\$ 146,506</u>	<u>\$ 476,157</u>	<u>\$ 405,814</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 23,803	\$ -	\$ 23,803	\$ 18,205
Accrued liabilities	16,162	-	16,162	12,496
Due to other funds	25,682	4,786	30,468	19,306
	<u>65,647</u>	<u>4,786</u>	<u>70,433</u>	<u>50,007</u>
Fund balances:				
Unreserved, reported in:				
Special revenue funds	-	141,720	141,720	78,906
General fund	264,004	-	264,004	276,901
	<u>264,004</u>	<u>141,720</u>	<u>405,724</u>	<u>355,807</u>
Total fund balances	<u>264,004</u>	<u>141,720</u>	<u>405,724</u>	<u>355,807</u>
Total liabilities and fund balance:	<u>\$ 329,651</u>	<u>\$ 146,506</u>	<u>\$ 476,157</u>	<u>\$ 405,814</u>

Amounts reported for <i>governmental activities</i> in the statement of net assets are different because			
Fund balances represented above	\$ 405,724	\$ 355,807	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,446,960	1,604,261	
Long-term receivables are not current financial resources and therefore are not reported	155,142		
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(184,278)	(209,166)	
Net assets of governmental activities:	<u>\$ 2,823,548</u>	<u>\$ 1,750,902</u>	

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2009 Totals</u>
REVENUES				
Taxes	\$ 242,062	\$ -	\$ 242,062	\$ 233,948
Licenses and permits	272,181	-	272,181	297,016
Fines and Forfeits	2,668	-	2,668	2,661
Intergovernmental	654,689	62,267	716,956	156,103
Charges for service	2,683	-	2,683	3,310
Other revenues	<u>228,378</u>	<u>5,759</u>	<u>234,137</u>	<u>200,523</u>
Total revenues	<u>1,402,661</u>	<u>68,026</u>	<u>1,470,687</u>	<u>893,561</u>
EXPENDITURES				
Current:				
General government	331,762	5,212	336,974	281,890
Public safety-Police	323,289	-	323,289	347,259
Public safety-Fire	81,606	-	81,606	141,727
Streets department	60,577	-	60,577	110,613
Capital outlay	920,452	-	920,452	190,680
Debt service	<u>34,395</u>	<u>-</u>	<u>34,395</u>	<u>34,395</u>
Total expenditures	<u>1,752,081</u>	<u>5,212</u>	<u>1,757,293</u>	<u>1,106,564</u>
Excess (deficiency) of revenues over expenditures	<u>(349,420)</u>	<u>62,814</u>	<u>(286,606)</u>	<u>(213,003)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	10,325	-	10,325	-
Transfers in (out)	<u>326,198</u>	<u>-</u>	<u>326,198</u>	<u>221,884</u>
Total other financing sources and uses	<u>336,523</u>	<u>-</u>	<u>336,523</u>	<u>221,884</u>
Net change in fund balances	(12,897)	62,814	49,917	8,881
Fund balances-beginning	<u>276,901</u>	<u>78,906</u>	<u>355,807</u>	<u>346,926</u>
Fund balances-ending	<u>\$ 264,004</u>	<u>\$ 141,720</u>	<u>\$ 405,724</u>	<u>\$ 355,807</u>
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 49,917	\$ 8,881
add: donation of capital assets			15,000	150,000
add: grant revenue not a current financial resource			155,142	
less: proceeds from sale of asset			(10,325)	-
add: capital outlay expenditures capitalized			920,452	190,680
add: debt service expenditures			34,395	34,395
less: disposal of capital assets loss			(7,097)	(17,158)
less: depreciation on governmental activities assets			(75,331)	(67,660)
less: interest on long term debt			<u>(9,507)</u>	<u>(10,545)</u>
Change in net assets Governmental Activities			<u>\$ 1,072,646</u>	<u>\$ 288,593</u>

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

**CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS ✕
June 30, 2010**

	Business-type Activities			2010 Total	2009 Totals
	✕ Water & Sewer Fund	Gas Fund	Garbage Fund		
ASSETS					
Current assets					
Cash	\$ 68,077	\$ 194,514	\$ -	\$ 262,591	\$ 263,454
Investments	147,006	1,214,057	11,541	1,372,604	1,648,962
Receivables (net)	99,716	30,638	24,876	155,230	158,893
Interest receivable	969	13,362	-	14,331	19,201
Grant receivable	116,170	-	-	116,170	200,514
Due from other funds	16,913	1,393	1,000	19,306	19,306
Total current assets	<u>448,851</u>	<u>1,453,964</u>	<u>37,417</u>	<u>1,940,232</u>	<u>2,310,330</u>
Noncurrent assets					
Restricted assets :					
Cash	671,095	-	-	671,095	925,061
Investments	267,143	-	-	267,143	258,803
Bond issue costs	24,967	-	-	24,967	4,245
Capital assets:	-	-	-	-	-
Construction in progress	28,000	-	-	28,000	3,970,769
Utility fixed assets	21,222,394	580,280	268,587	22,071,261	14,986,908
Less accumulated depreciation	<u>(6,413,284)</u>	<u>(437,093)</u>	<u>(102,114)</u>	<u>(6,952,491)</u>	<u>(6,554,440)</u>
Total noncurrent assets	<u>15,800,315</u>	<u>143,187</u>	<u>166,473</u>	<u>16,109,975</u>	<u>13,591,346</u>
Total assets	<u>\$ 16,249,166</u>	<u>\$ 1,597,151</u>	<u>\$ 203,890</u>	<u>\$ 18,050,207</u>	<u>\$ 15,901,676</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 49,742	\$ 26,779	\$ 12,440	\$ 88,961	\$ 90,718
Accounts payable-construction	113,987	-	-	113,987	1,254,840
Accrued liabilities	22,823	26,000	12,446	61,269	51,138
Due to other funds	-	-	-	-	-
Customer deposits	73,458	81,501	-	154,959	155,109
Accrued interest payable	40,635	-	2,258	42,893	27,932
Current portion of long-term obligations	<u>127,600</u>	<u>-</u>	<u>30,969</u>	<u>158,569</u>	<u>120,900</u>
Total current liabilities	<u>428,245</u>	<u>134,280</u>	<u>58,113</u>	<u>620,638</u>	<u>1,700,637</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	<u>5,851,800</u>	<u>-</u>	<u>117,895</u>	<u>5,969,695</u>	<u>3,439,400</u>
Total noncurrent liabilities	<u>5,851,800</u>	<u>-</u>	<u>117,895</u>	<u>5,969,695</u>	<u>3,439,400</u>
Total liabilities	<u>6,280,045</u>	<u>134,280</u>	<u>176,008</u>	<u>6,590,333</u>	<u>5,140,037</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,857,710	143,187	17,609	9,018,506	8,842,937
Restricted for:					
Debt service	531,362			531,362	520,487
Depreciation	395,989			395,989	381,662
Unrestricted	<u>184,060</u>	<u>1,319,684</u>	<u>10,273</u>	<u>1,514,017</u>	<u>1,016,553</u>
Total net assets	<u>9,969,121</u>	<u>1,462,871</u>	<u>27,882</u>	<u>11,459,874</u>	<u>10,761,639</u>
Total liabilities and net assets	<u>\$ 16,249,166</u>	<u>\$ 1,597,151</u>	<u>\$ 203,890</u>	<u>\$ 18,050,207</u>	<u>\$ 15,901,676</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2010

	Business-type Activities			2010 Total	2009 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
Operating revenues					
Charges for services	\$ 1,124,088	\$1,014,834	\$ 306,846	\$ 2,445,768	\$ 2,547,491
Total operating revenues	<u>1,124,088</u>	<u>1,014,834</u>	<u>306,846</u>	<u>2,445,768</u>	<u>2,547,491</u>
Operating expenses					
Salaries and wages	220,809	150,321	137,293	508,423	477,533
Casual labor	18,275	15,173	7,996	41,444	65,578
Gas purchases	-	518,795	-	518,795	670,643
Payroll taxes	16,103	10,984	10,060	37,147	36,461
Retirement	31,257	24,531	22,600	78,388	53,488
Uniforms and laundry	6,672	6,547	6,547	19,766	16,711
Maintenance and repairs	247,566	78,742	10,983	337,291	347,137
Truck expense	-	-	9,625	9,625	10,949
Travel and lodging	1,577	1,562	-	3,139	5,158
Motor fuel	17,643	17,643	19,668	54,954	46,109
Office expense and postage	24,223	2,094	5,691	32,008	49,034
Legal and professional	8,068	8,068	8,068	24,204	34,252
Utilities	90,622	9,365	415	100,402	93,365
Insurance	61,607	49,984	35,006	146,597	179,829
Dump expense	-	-	87,193	87,193	83,850
Sludge hauling	13,831	-	-	13,831	31,686
Pretreatment expenses	9,270	-	-	9,270	7,938
Management fees	43,000	66,000	26,000	135,000	135,000
Other expense	12,279	12,292	4,192	28,763	33,451
Amortization	151	-	-	151	151
Depreciation	503,002	9,852	24,149	537,003	420,880
Total operating expenses	<u>1,325,955</u>	<u>981,953</u>	<u>415,486</u>	<u>2,723,394</u>	<u>2,799,203</u>
Operating income (loss)	(201,867)	32,881	(108,640)	(277,626)	(251,712)
Nonoperating revenues (expenses)					
Gain (loss) on sale of assets	9,936	(586)	8,946	18,296	-
Investment earnings	27,473	57,491	366	85,330	101,193
Interest expense	(198,877)	-	(5,573)	(204,450)	(139,344)
Income before capital contributions and transfers	<u>(363,335)</u>	<u>89,786</u>	<u>(104,901)</u>	<u>(378,450)</u>	<u>(289,863)</u>
Capital contributions					
Water and sewer tap fees	2,752	1,266	-	4,018	25,089
Grant revenues	1,398,865	-	-	1,398,865	3,937,263
Transfers in (out)	(5,810)	(406,071)	85,683	(326,198)	(221,884)
Change in net assets	<u>1,032,472</u>	<u>(315,019)</u>	<u>(19,218)</u>	<u>698,235</u>	<u>3,450,605</u>
Total net assets-beginning	<u>8,936,649</u>	<u>1,777,890</u>	<u>47,100</u>	<u>10,761,639</u>	<u>7,311,034</u>
TOTAL NET ASSETS-ENDING	<u>\$ 9,969,121</u>	<u>\$1,462,871</u>	<u>\$ 27,882</u>	<u>\$11,459,874</u>	<u>\$10,761,639</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2010

	Business-type Activities			2010 Total	2009 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,113,495	\$1,024,272	\$ 307,625	\$2,445,392	\$2,560,402
Payments to suppliers	(518,818)	(701,242)	(184,521)	(1,404,581)	(1,623,547)
Payments for interfund services (payment in lieu of taxes)	(43,000)	(66,000)	(26,000)	(135,000)	(135,000)
Payments for employee services and benefits	(281,825)	(197,814)	(175,629)	(655,268)	(633,771)
Net cash provided (used) by operating activities	<u>269,852</u>	<u>59,216</u>	<u>(78,525)</u>	<u>250,543</u>	<u>168,084</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Bond principal payment	(2,660,900)	-	(15,060)	(2,675,960)	(1,369,200)
Capital contributions from grant	1,484,961	1,266	-	1,486,227	3,781,306
Proceeds from bond/loan issuance	5,080,000	-	163,924	5,243,924	1,267,000
Proceeds from sale of assets	57,461	501	11,217	69,179	-
Purchases of capital assets	(4,272,013)	-	(163,924)	(4,435,937)	(4,260,503)
Interest paid on capital debt	(221,572)	-	(3,315)	(224,887)	(144,218)
Net cash provided (used) by capital and related financing activities	<u>(532,063)</u>	<u>1,767</u>	<u>(7,158)</u>	<u>(537,454)</u>	<u>(725,615)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Net operating transfers in (out)	(5,810)	(406,071)	85,683	(326,198)	(221,884)
Net cash provided (used) by noncapital financing activities	<u>(5,810)</u>	<u>(406,071)</u>	<u>85,683</u>	<u>(326,198)</u>	<u>(221,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	27,504	62,392	366	90,262	143,316
Net cash provided by investing activities	<u>27,504</u>	<u>62,392</u>	<u>366</u>	<u>90,262</u>	<u>143,316</u>
Net increase (decrease) in cash and cash equivalents	(240,517)	(282,696)	366	(522,847)	(636,099)
Cash and cash equivalents-beginning of the year	1,393,838	1,691,267	11,175	3,096,280	3,732,379
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 1,153,321</u>	<u>\$1,408,571</u>	<u>\$ 11,541</u>	<u>\$2,573,433</u>	<u>\$3,096,280</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (201,867)	\$ 32,881	\$ (108,640)	\$ (277,626)	\$ (251,712)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	503,002	9,852	24,149	537,003	420,880
Change in assets and liabilities					
Receivables, net	(10,593)	9,558	779	(256)	4,854
Due from other funds	-	-	-	-	-
Other assets	(20,722)	-	-	(20,722)	151
Accounts and other payables	(4,557)	3,852	2,867	2,162	(5,004)
Accrued expenses	4,589	3,073	2,320	9,982	(1,085)
Net cash provided (used) by operating activities	<u>\$ 269,852</u>	<u>\$ 59,216</u>	<u>\$ (78,525)</u>	<u>\$ 250,543</u>	<u>\$ 168,084</u>

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Presentation

The City's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments**" and consist of the following:

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

Government-wide Financial Statements

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

Fund Financial Statements

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, continued

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

The following funds are used by the City of Liberty:

Governmental Fund Types

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

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

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

Proprietary Funds

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

Proprietary Funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the following:

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

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

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

C. Basis of Accounting

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting, continued

Government-wide Financial Statements

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

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

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

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

D. Budgeting

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

E. Internal Balances

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

F. Revenues and Receivables

Proprietary receivables from customers are net of allowance for uncollectible as follows: water and sewer - \$29,024, gas - \$55,301 and garbage - \$17,630.

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

H. Use of Estimates

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

I. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 28, 2010, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2010, have not been evaluated by the City.

J. Other Accounting Policies

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

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

The City records investments with maturities of one year or less at acquisition at cost or amortized cost in conformity with GASB Statement No. 31. Investments consist of certificates of deposit.

All restricted and unrestricted cash and investments, which consist of Certificates of Deposit, are considered cash for purposes of the Statement of Cash Flows.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

2. CASH AND INVESTMENTS

Under Kentucky Revised Statute 66.480 the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

The balances for cash and investments in certificates of deposit as of June 30, 2010 are as follows:

	Governmental	Proprietary	Total
Carrying amount	\$ 290,423	\$ 2,573,433	\$ 2,863,856
Bank Balance	299,476	2,625,610	2,925,086
FDIC Insurance			823,040
Collateral			3,678,949

The City of Liberty's deposits and investments at June 30, 2010, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

3. CDBG GRANTS

The City of Liberty was awarded \$800,000 on December 15, 2006 by the Governor's Office for Local Development Community Development Block Grant from the State-Administered Small Cities Program. The grant was to provide a \$775,000 equipment lease to Chieftain Steel, LLC through the Economic Development Authority. The City maintains responsibility for all sub-recipient monitoring.

4. CAPITAL ASSETS

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

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 327,359	\$ 407,290	\$ -	\$ 734,649
Construction in Progress	<u>89,020</u>	<u>-</u>	<u>(89,020)</u>	<u>-</u>
Totals	<u>416,379</u>	<u>407,290</u>	<u>(89,020)</u>	<u>734,649</u>
Capital assets that are depreciated:				
Land Improvements	\$ 30,857	\$ 527,255	\$ -	\$ 558,112
Buildings and Improvements	1,080,680	9,212	-	1,089,892
Vehicles	634,931	75,750	(55,594)	655,087
Equipment	<u>44,732</u>	<u>4,965</u>	<u>-</u>	<u>49,697</u>
Totals	<u>1,791,200</u>	<u>617,182</u>	<u>(55,594)</u>	<u>2,352,788</u>
Total Capital Assets	<u>2,207,579</u>	<u>1,024,472</u>	<u>(144,614)</u>	<u>3,087,437</u>
Less Accumulated Depreciation:				
Land Improvements	-	3,740	-	3,740
Buildings and Improvements	219,668	31,245	-	250,913
Vehicles	373,694	36,342	(38,172)	371,864
Equipment	<u>9,956</u>	<u>4,004</u>	<u>-</u>	<u>13,960</u>
Totals	<u>603,318</u>	<u>75,331</u>	<u>(38,172)</u>	<u>640,477</u>
Capital assets, net	<u>\$ 1,604,261</u>	<u>\$ 949,141</u>	<u>\$ (106,442)</u>	<u>\$ 2,446,960</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

4. CAPITAL ASSETS (continued)

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

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	<u>3,970,769</u>	<u>3,107,088</u>	<u>(7,049,857)</u>	<u>28,000</u>
Totals	<u>4,075,041</u>	<u>3,107,088</u>	<u>(7,049,857)</u>	<u>132,272</u>
Capital assets that are depreciated:				
Water Plant	\$ 5,556,854	\$ 6,942,131	\$ (64,053)	\$ 12,434,931
Sewer Plant	8,592,263	168,134	(39,807)	8,720,591
Gas Lines & Equipment	544,433	-	(1,553)	542,880
Garbage Equipment	<u>189,086</u>	<u>163,924</u>	<u>(84,423)</u>	<u>268,587</u>
Totals	<u>14,882,636</u>	<u>7,274,189</u>	<u>(189,836)</u>	<u>21,966,989</u>
Total Capital Assets	<u>18,957,677</u>	<u>10,381,277</u>	<u>(7,239,693)</u>	<u>22,099,261</u>
Less Accumulated Depreciation	<u>6,554,440</u>	<u>537,003</u>	<u>(138,952)</u>	<u>6,952,491</u>
Capital Assets, net	<u>\$ 12,403,237</u>	<u>\$ 9,844,274</u>	<u>\$ (7,100,741)</u>	<u>\$ 15,146,770</u>

Current year additions to construction in progress include capitalized interest of \$35,397.

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 28,246
Police	17,426
Fire	<u>29,659</u>
Total Depreciation Expense	<u>\$ 75,331</u>

5. LONG - TERM DEBT

BUSINESS - TYPE ACTIVITIES

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

The future capital lease payments are summarized as follows:

	Principal	Interest	Total
2011	\$ 30,969	\$ 5,281	\$ 36,250
2012	32,139	4,112	36,251
2013	33,353	2,899	36,252
2014	34,611	1,639	36,250
2015	<u>17,792</u>	<u>333</u>	<u>18,125</u>
	<u>\$ 148,864</u>	<u>\$ 14,264</u>	<u>\$ 163,128</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. LONG - TERM DEBT (Continued)

BUSINESS - TYPE ACTIVITIES, continued

The following is a summary of the revenue bonds outstanding of the city for the year ended June 30, 2010:

Revenue Bonds	<u>Outstanding June 30, 2010</u>	<u>Outstanding June 30, 2009</u>
Water and Sewer Fund - \$1,300,000		
1976 Series due in annual installments		
of \$10,000 to \$92,000 through 2016, Interest at 5%	\$ 493,000	\$ 562,000
Water and Sewer Fund - \$734,000		
1988 Series A & B due in annual installments		
of \$7,000 to \$ 42,000 through 2028, Interest at 5%	512,000	529,000
Water and Sewer Fund - \$931,000		
1996 Series A & B due in annual installments		
of \$7,000 to \$ 42,000 through 2036, Interest at 4.5%	780,900	796,800
Water and Sewer Fund - \$436,000		
2001 Series due in annual installments		
of \$4,500 to \$ 21,500 through 2041, Interest at 4.5%	399,500	405,500
Water and Sewer Fund - \$1,267,000		
2007 Series due in annual installments		
of \$13,000 to \$67,000 through 2047, Interest at 4.5%	1,254,000	1,267,000
Water and Sewer Fund - \$1,712,000		
2008 Series due in annual installments		
of \$19,500 to \$87,000 through 2049, Interest at 4.0%	828,000	-
Water and Sewer Fund - \$828,000		
2009 Series due in annual installments		
of \$12,600 to \$34,100 through 2049, Interest at 2.375%	<u>1,712,000</u>	<u>-</u>
	<u>\$ 5,979,400</u>	<u>\$ 3,560,300</u>

The following is a summary of the changes in long – term debt for the year ended June 30, 2010:

	July 1, 2009	Additions	Retirements	June 30, 2010
W&S Bond 1976	\$ 562,000	\$ -	\$ (69,000)	\$ 493,000
W&S Bond 1988	529,000		(17,000)	512,000
W&S Bond 1996	796,800		(15,900)	780,900
W&S Bond 2001	405,500		(6,000)	399,500
W&S Bond 2007	1,267,000		(13,000)	1,254,000
KRW Loan 2008	-	1,712,000	(1,712,000)	-
KRW Loan 2009	-	828,000	(828,000)	-
W&S Bond 2008	-	1,712,000	-	1,712,000
W&S Bond 2009	-	828,000	-	828,000
Garbage Truck Lease	-	<u>163,924</u>	<u>(15,060)</u>	<u>148,864</u>
	<u>\$ 3,560,300</u>	<u>\$ 5,243,924</u>	<u>\$ (2,675,960)</u>	<u>\$ 6,128,264</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. LONG - TERM DEBT (Continued)

BUSINESS - TYPE ACTIVITIES, continued

The annual requirements to amortize all long-term debt outstanding as of June 30, 2010, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 158,569	\$ 253,180	\$ 411,749
2012	197,439	245,810	443,249
2013	205,853	237,048	442,901
2014	214,011	227,899	441,910
2015	207,392	218,383	425,775
2016 -2020	665,700	982,074	1,647,774
2021 -2025	711,200	844,659	1,555,859
2026 -2030	788,200	681,406	1,469,606
2031 -2035	819,400	521,645	1,341,045
2036 -2040	781,000	354,615	1,135,615
2041- 2045	790,500	202,812	993,312
2046 -2049	<u>589,000</u>	<u>50,139</u>	<u>639,139</u>
	<u>\$ 6,128,264</u>	<u>\$ 4,819,670</u>	<u>\$ 10,947,934</u>

There are a number of limitations and restrictions contained in the various bond indentures. The water and sewer fund is in compliance with all significant limitations and restrictions. As of June 30, 2010 the amount reserved for bond principal and interest payments was \$531,362 and the amount restricted for the depreciation reserve is \$395,989.

GOVERNMENTAL ACTIVITIES

During fiscal year 2002 the City of Liberty entered an agreement with the Kentucky Fire Commission to finance construction of a new fire department. The agreement requires annual payments of \$7,535. The obligation is reported as general long-term debt.

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

As of June 30, 2010 the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
2011	\$ 19,281	\$ 7,579	\$ 26,860
2012	20,216	6,644	26,860
2013	21,196	5,664	26,860
2014	22,225	4,635	26,860
2015	23,302	3,558	26,860
2016-2017	<u>50,050</u>	<u>3,670</u>	<u>53,720</u>
	<u>\$ 156,270</u>	<u>\$ 31,750</u>	<u>\$ 188,020</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. LONG - TERM DEBT (Continued)

GOVERNMENTAL ACTIVITIES

The following is a summary of changes in general long – term debt for the year ended June 30, 2010:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
KY Fire Commission Loan	\$ 34,507	\$ -	\$ (6,449)	\$ 28,008
Osh Kosh Capital Lease	<u>174,659</u>	<u>-</u>	<u>(18,389)</u>	<u>156,270</u>
	<u>\$ 209,166</u>	<u>\$ -</u>	<u>\$ (24,888)</u>	<u>\$ 184,278</u>

The following is a summary of debt service requirements as of June 30, 2010:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 25,975	\$ 8,419	\$ 34,394
2012	27,111	7,283	34,394
2013	28,299	6,096	34,395
2014	29,540	4,855	34,395
2015	23,302	3,558	26,860
2016-2017	<u>50,051</u>	<u>3,670</u>	<u>53,721</u>
TOTAL	<u>\$ 184,278</u>	<u>\$ 33,881</u>	<u>\$ 218,159</u>

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2010 were levied in October 2009 on the assessed valuation of property located in Casey County as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes, are as follows:

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

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

7. RETIREMENT PLAN

The City of Liberty is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

7. RETIREMENT PLAN (Continued)

Contributions – For the year ended June 30, 2010, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16%, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employer and employee) and the actual percentage contributed for the City for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 149,108	100%
2009	\$ 118,357	100%
2008	\$ 168,927	100%

8. RISK MANAGEMENT

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

9. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or net assets as previously reported.

10. RELATED PARTY TRANSACTIONS

During 2010 the City received \$147,500 from the Economic Development Authority of Liberty/Casey County. The majority of these funds was applied toward the City's local match for the Liberty Crossing project.

11. RESTATEMENT OF NET ASSETS

The City has determined that it is more appropriate to exclude the CDBG/Economic Development Fund from the City's financial statements. The Economic Development Fund is now included as part of the Economic Development Authority of Liberty/Casey County.

The effect on the June 30, 2009 non-major governmental fund balance is as follows:

Fund Balances, June 30, 2009, as previously reported	\$ 577,995
Decrease due to exclusion of CDBG fund	<u>(222,188)</u>
Fund Balances, June 30, 2009, as restated	<u>\$ 355,807</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

11. RESTATEMENT OF NET ASSETS (Continued)

The effect on the June 30, 2009 governmental activities net assets is as follows:

Net Assets, June 30, 2009, as previously reported	\$ 2,617,516
Decrease due to exclusion of CDBG fund	<u>(866,614)</u>
Net Assets, June 30, 2009, as restated	<u>\$ 1,750,902</u>

12. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through December 28, 2010, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2010, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes				
Property taxes & motor vehicle taxes	\$ 224,000	\$ 235,415	\$ 235,807	\$ 392
Payment in lieu of taxes	<u>6,500</u>	<u>6,255</u>	<u>6,255</u>	<u>-</u>
	<u>230,500</u>	<u>241,670</u>	<u>242,062</u>	<u>392</u>
Licenses, permits, billings				
City stickers	25,000	15,000	14,873	(127)
Franchise fees	62,000	65,978	67,004	1,026
Insurance premiums	250,000	194,483	187,989	(6,494)
Building permits	<u>3,500</u>	<u>2,315</u>	<u>2,315</u>	<u>-</u>
	<u>340,500</u>	<u>277,776</u>	<u>272,181</u>	<u>(5,595)</u>
Fines and forfeitures				
Parking Tickets/Arrest Fees	<u>2,400</u>	<u>2,553</u>	<u>2,668</u>	<u>115</u>
	<u>2,400</u>	<u>2,553</u>	<u>2,668</u>	<u>115</u>
Intergovernmental revenue				
Base court revenue	13,000	11,518	13,851	2,333
Police incentive pay	18,000	16,475	16,440	(35)
Local economic assistance	4,500	2,595	149,924	147,329
Liberty crossing	480,000	627,500	382,587	(244,913)
C.I.T.Y. grant	-	-	22,403	22,403
Police vehicles grant	63,000	53,302	53,302	-
FEMA grant	-	44,880	-	(44,880)
Other grants	18,100	17,600	7,932	(9,668)
Fire equipment grant	<u>8,250</u>	<u>8,250</u>	<u>8,250</u>	<u>-</u>
	<u>604,850</u>	<u>782,120</u>	<u>654,689</u>	<u>(127,431)</u>
Charges for services				
Fishing permits	2,500	2,680	1,780	(900)
Accident reports	<u>1,000</u>	<u>863</u>	<u>903</u>	<u>40</u>
	<u>3,500</u>	<u>3,543</u>	<u>2,683</u>	<u>(860)</u>
Other revenues				
Interest income	8,000	5,000	7,114	2,114
Management fees	135,000	135,000	135,000	-
Other revenues	<u>64,425</u>	<u>146,729</u>	<u>86,264</u>	<u>(60,465)</u>
	<u>207,425</u>	<u>286,729</u>	<u>228,378</u>	<u>(58,351)</u>
Sale of asset				
	<u>-</u>	<u>-</u>	<u>10,325</u>	<u>10,325</u>
Total Revenue	<u>\$ 1,389,175</u>	<u>\$ 1,594,391</u>	<u>\$ 1,412,986</u>	<u>\$ (181,405)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government				
Salaries	\$ 89,840	\$ 86,260	\$ 85,899	\$ (361)
Payroll taxes and employee benefits	16,260	26,549	29,903	3,354
KY ASAP grant	18,100	28,463	18,515	(9,948)
Planning and zoning expenses	5,000	3,938	3,938	-
Professional services	8,000	8,500	8,428	(72)
Utilities	10,000	7,371	7,815	444
Office supplies	2,500	2,320	3,213	893
Maintenance and repairs	1,000	-	-	-
Insurance	20,000	17,491	17,491	-
Travel/lodging	2,200	2,500	3,519	1,019
Lake Liberty expenses	1,500	6,281	6,301	20
Postage	1,000	1,000	792	(208)
Dues and subscriptions	-	-	250	250
Parks and recreation	30,000	23,000	24,304	1,304
C.I.T.Y.	-	-	24,775	24,775
Fireworks	-	22,000	29,441	7,441
Flood expense	-	51,000	41,041	(9,959)
Other expenses	35,000	58,332	26,137	(32,195)
	<u>240,400</u>	<u>345,005</u>	<u>331,762</u>	<u>(13,243)</u>
Police				
Salaries	173,500	191,826	192,401	575
Payroll taxes and employee benefits	66,720	72,035	68,235	(3,800)
Motor fuels	20,000	16,233	16,600	367
Utilities	4,000	3,580	3,763	183
Equipment	9,000	10,592	11,132	540
Vehicle repairs	8,000	6,860	11,737	4,877
Uniforms	3,500	710	710	-
Insurance	25,000	16,293	16,293	-
Travel and lodging	500	-	-	-
Miscellaneous	4,000	1,900	2,418	518
	<u>314,220</u>	<u>320,029</u>	<u>323,289</u>	<u>3,260</u>
Fire				
Labor	48,000	42,075	42,575	500
Repairs and maintenance	2,000	602	602	-
Equipment	9,800	14,090	6,616	(7,474)
Utilities	8,000	8,163	8,434	271
Insurance	9,500	4,926	4,926	-
Motor fuel	5,000	3,342	3,578	236
Miscellaneous	800	3,976	14,875	10,899
	<u>83,100</u>	<u>77,174</u>	<u>81,606</u>	<u>4,432</u>

CITY OF LIBERTY, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 GENERAL FUND
 for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Streets and Public Works				
Street repairs	\$ 8,000	\$ 1,000	\$ 982	\$ (18)
Repairs and maintenance	500	926	926	-
Utilities	46,000	45,062	45,280	218
Supplies	12,000	4,187	8,729	4,542
Insurance	2,700	2,300	2,279	(21)
Motor fuel	5,000	2,192	2,381	189
Miscellaneous expenses	1,500	-	-	-
	<u>75,700</u>	<u>55,667</u>	<u>60,577</u>	<u>4,910</u>
Capital Outlay	<u>606,500</u>	<u>917,370</u>	<u>920,452</u>	<u>3,082</u>
Debt Service	<u>35,110</u>	<u>35,110</u>	<u>34,395</u>	<u>(715)</u>
Total Expenditures	<u>1,355,030</u>	<u>1,750,355</u>	<u>1,752,081</u>	<u>1,726</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>(230,000)</u>	<u>(261,675)</u>	<u>(326,198)</u>	<u>(64,523)</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 1,125,030</u>	<u>\$ 1,488,680</u>	<u>\$ 1,425,883</u>	<u>\$ (62,797)</u>

CITY OF LIBERTY, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 SPECIAL REVENUE FUNDS
 for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
CEMETERY				
Lot Sales/Donations	\$ 1,400	\$ 2,650	\$ 3,125	\$ 475
Interest	<u>2,600</u>	<u>2,500</u>	<u>2,634</u>	<u>134</u>
TOTAL REVENUE	<u>\$ 4,000</u>	<u>\$ 5,150</u>	<u>\$ 5,759</u>	<u>\$ 609</u>
Perpetual care trust fee	\$ 500	\$ 500	\$ 600	\$ 100
Mowing	3,500	4,600	4,612	12
Construction/Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 4,000</u>	<u>\$ 5,100</u>	<u>\$ 5,212</u>	<u>\$ 112</u>
 MUNICIPAL ROAD AID				
Intergovernmental revenues	\$ 34,000	\$ 34,000	\$ 62,267	\$ 28,267
TOTAL REVENUE	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 62,267</u>	<u>\$ 28,267</u>
Streets	\$ 34,000	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	<u>\$ 34,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LIBERTY, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Cemetery Fund	Municipal Road Aid Fund	Total Governmental Funds
ASSETS			
Cash	\$ 32,866	\$ 24,352	\$ 57,218
Investments	51,373	-	51,373
Receivables, net	-	26,753	26,753
Due from other funds	-	11,162	11,162
 Total assets	 \$ 84,239	 \$ 62,267	 \$ 146,506
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	4,786	-	4,786
Total liabilities:	4,786	-	4,786
 Fund balance	 79,453	 62,267	 141,720
 Total liabilities and fund balance:	 \$ 84,239	 \$ 62,267	 \$ 146,506

**CITY OF LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2010**

	Cemetery Fund	Municipal Road Aid Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 62,267	\$ 62,267
Other revenues	5,759	-	5,759
Total revenues	5,759	62,267	68,026
EXPENDITURES			
Current			
General government	5,212	-	5,212
Streets department	-	-	-
Capital outlay	-	-	-
Total expenditures	5,212	-	5,212
Excess (deficiency) of revenues over expenditures	547	62,267	62,814
OTHER FINANCING SOURCES (USES)			
Loans			-
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	547	62,267	62,814
Fund balances-beginning	78,906	-	78,906
Fund balances-ending	\$ 79,453	\$ 62,267	\$ 141,720

**CITY OF LIBERTY, KENTUCKY
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor and the City Council
City of Liberty
Liberty, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Liberty, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City of Liberty, Kentucky's basic financial statements and have issued our report thereon December 28, 2010. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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**.

This report is intended solely for the information and use of management, 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.

Ray, Foley, Hensley & Company
RAY, FOLEY, HENSLEY & COMPANY, PLLC
December 28, 2010

CITY OF LIBERTY, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and the City Council
City of Liberty
Liberty, Kentucky

Compliance

We have audited the compliance of the City of Liberty, 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, 2010. The City of Liberty's major federal programs are identified in the summary of the auditors' 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 Liberty's management. Our responsibility is to express an opinion on City of Liberty'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 Liberty's compliance with those requirements and performing such other procedures, as we considered necessary in these circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Liberty's compliance with those requirements.

In our opinion, the City of Liberty 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, 2010.

Internal Control Over Compliance

The management of the City of Liberty is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Liberty's internal control over compliance with 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 Liberty's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

**CITY OF LIBERTY, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 of management, City Council, and appropriate federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 28, 2010

CITY OF LIBERTY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Expenditures
Federal Highway Administration Highway Planning and Construction (1)	20.205		\$ 382,587 *
U.S. Department of Homeland Security Disaster Grants - Public assistance	97.036		155,142
U. S. Department of Agriculture, Rural Utilities Service Water and Waste Disposal Systems for Rural Communities			
Grant	10.760		1,031,406 *
Loan	10.760		1,754,433 *
U. S. Department of Agriculture, Rural Housing Service Community Facilities Loans and Grants	10.766		53,302
U.S. Department of Housing and Urban Development Community Development Block Grant/State's Program	14.228		<u>25,000</u>
Total			<u>\$ 3,401,870</u>

Notes:

(1) - Grant was passed through the Kentucky Transportation Cabinet

* - Denotes Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Liberty, Kentucky and is presented on the accrual 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 may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF LIBERTY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	__Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	<u>X</u> None reported

Non-compliance material to financial statements noted	__Yes	<u>X</u> No
---	-------	-------------

Federal Awards:

Internal control over major programs:

Material weaknesses identified	__Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	<u>X</u> None reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	__Yes	<u>X</u> No
--	-------	-------------

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000	
--	------------	--

Auditee qualified as a low-risk auditee?	__Yes	<u>X</u> No
--	-------	-------------

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE