

CITY OF LIBERTY
Liberty, Kentucky

FINANCIAL STATEMENTS
June 30, 2013

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City of Liberty, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Liberty's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read in conjunction with the auditor's report on page 9-10 and the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The City's net position decreased in the governmental activities and decreased in the business-type activities. The net position of the governmental activities decreased by \$109,932, and the net position of the business-type activities decreased to \$10,839,252, which was a .2 percent decrease from the previous year.
- In the City's governmental activities, revenues decreased by \$180,806, or 16.9 percent, and expenses decreased by 7.6 percent to \$923,976. In the business-type activities, revenues increased to \$3,026,428 which is an increase of 8.9 percent, while expenses increased by 3.4 percent to \$3,124,350.

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 Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET POSITION

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

Table A-1

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>
Current and Other Assets	\$ 363,493	\$ 442,028	\$ 2,303,209	\$ 2,830,990	\$ 2,666,702	\$ 3,273,018
Capital Assets	<u>2,372,927</u>	<u>2,418,249</u>	<u>14,344,258</u>	<u>14,510,332</u>	<u>16,717,185</u>	<u>16,928,581</u>
Total Assets	<u>2,736,420</u>	<u>2,860,277</u>	<u>16,647,467</u>	<u>17,341,322</u>	<u>19,383,887</u>	<u>20,201,599</u>
Long-Term Debt Outstanding	73,353	102,894	5,134,843	5,566,403	5,208,196	5,669,297
Current Liabilities	<u>69,662</u>	<u>54,046</u>	<u>673,372</u>	<u>917,516</u>	<u>743,034</u>	<u>971,562</u>
Total Liabilities	<u>143,015</u>	<u>156,940</u>	<u>5,808,215</u>	<u>6,483,919</u>	<u>5,951,230</u>	<u>6,640,859</u>
Net Position:						
Net Investment in						
Capital Assets	2,270,033	2,287,056	8,927,342	8,738,076	11,197,375	11,025,132
Restricted	241,751	200,338	164,250	989,180	406,001	1,189,518
Unrestricted	<u>81,621</u>	<u>215,943</u>	<u>1,747,660</u>	<u>1,130,147</u>	<u>1,829,281</u>	<u>1,346,090</u>
Total Net Position	<u>\$ 2,593,405</u>	<u>\$ 2,703,337</u>	<u>\$ 10,839,252</u>	<u>\$ 10,857,403</u>	<u>\$ 13,432,657</u>	<u>\$ 13,560,740</u>

The net position of the City's governmental activities decreased from \$2,703,337 in 2012 to \$2,593,405 in 2013. The net position of the business-type activities decreased from \$10,857,403 to \$10,839,252 in 2013, which is a 0.2 percent decrease. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

NET POSITION, continued

Table A-2

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 2,681	\$ 2,603	\$ 2,479,545	\$ 2,255,443	\$ 2,482,226	\$ 2,258,046
Operating Grants & Contributions	160,732	258,412	-	-	160,732	258,412
Capital Grants & Contributions	8,250	8,250	521,530	482,454	529,780	490,704
<u>General Revenue</u>					-	-
Taxes	266,264	251,972	-	-	266,264	251,972
License fees	264,044	339,278	-	-	264,044	339,278
Permits	24,125	30,256	-	-	24,125	30,256
Other Grants and Contributions	2,511	2,414	-	-	2,511	2,414
Investment Earnings	5,805	11,523	25,353	40,064	31,158	51,587
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	20,683	31,193	-	-	20,683	31,193
Total Revenue	890,095	1,070,901	3,026,428	2,777,961	3,916,523	3,848,862
Program Expenses						
General Government	314,361	468,520	-	-	314,361	468,520
Public Safety - Police	345,210	350,139	-	-	345,210	350,139
Public Safety - Fire	119,094	107,463	-	-	119,094	107,463
Streets Department	139,215	67,050	-	-	139,215	67,050
Interest on Long-term Debt	6,096	7,284	-	-	6,096	7,284
Utility	-	-	3,124,350	3,021,487	3,124,350	3,021,487
Total Program Expenses	923,976	1,000,456	3,124,350	3,021,487	4,048,326	4,021,943
Other Changes						
Transfers	(79,771)	(66,561)	79,771	66,561	-	-
Gain (loss) on sale of assets	3,720	409	-	-	3,720	409
Total Other Changes	(76,051)	(66,152)	79,771	66,561	3,720	409
Change In Net Assets	\$ (109,932)	\$ 4,293	\$ (18,151)	\$ (176,965)	\$ (128,083)	\$ (172,672)

The City's total revenue increased by 1.8 percent and the total cost of all programs reflected an increase of 0.7 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 2013</u>	<u>FY2012</u>	<u>Change</u>
Taxes	\$ 266,264	\$ 251,972	\$ 14,292
Licenses and permits	288,169	369,534	(81,365)
Fines and Forfeits	1,615	2,160	(545)
Intergovernmental	171,493	269,076	(97,583)
Charges for Services	2,681	2,603	78
Other Revenues	<u>159,873</u>	<u>175,556</u>	<u>(15,683)</u>
Total Revenues	<u>890,095</u>	<u>1,070,901</u>	<u>(180,806)</u>
General Government	\$ 251,591	\$ 407,088	\$ (155,497)
Public Safety	413,567	406,817	6,750
Streets Department	139,215	67,050	72,165
Capital Outlay	68,185	34,594	33,591
Debt Service	<u>34,395</u>	<u>34,395</u>	<u>-</u>
Total Expenditures	<u>906,953</u>	<u>949,944</u>	<u>(42,991)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (16,858)</u>	<u>\$ 120,957</u>	<u>\$ (137,815)</u>

Revenues for the City's governmental activities decreased by 16.9 percent, while total expenditures decreased by 4.5 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) decreased by \$137,815. The City's major sources of revenue in the governmental activities are other revenue (18.0 percent), licenses and permits (32.4 percent), taxes (29.9 percent) and intergovernmental (19.3 percent). These revenue sources decreased 16.9 percent in 2013. The major change in expenditures in the governmental activities was a decrease in general government of \$155,497 which is due to a decrease in grant expenditures during 2013.

BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, revenues for the City increased to \$3,026,428, or 8.9 percent, while total expenses increased 3.4 percent. The increase of revenues combined with the increase of expenses and increase in other changes increased the change in net position to (\$18,151). The City's major source of revenue in the business-type activities is charges for services, which increased to \$2,479,545. This revenue source makes up 81.9 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	\$ 264,000	\$ 266,264	\$ 2,264
Licenses and permits	293,000	288,169	(4,831)
Fines and Forfeitures	1,600	1,615	15
Intergovernmental	46,550	51,263	4,713
Charges for Services	2,200	2,681	481
Other Revenues	153,200	153,827	627
Sale of Asset	-	3,720	3,720
Total Revenues and Other Financing Sources	<u>\$ 760,550</u>	<u>\$ 767,539</u>	<u>\$ 6,989</u>

Table A-5

Condensed Governmental Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 305,525	\$ 248,752	\$ (56,773)
Public Safety	436,340	413,567	(22,773)
Streets Department	61,400	57,191	(4,209)
Transfers (in) out	(110,000)	79,771	189,771
Debt Service	35,110	34,395	(715)
Capital Outlay	<u>23,350</u>	<u>68,185</u>	<u>44,835</u>
Total Expenditures	<u>\$ 751,725</u>	<u>\$ 901,861</u>	<u>\$ 150,136</u>

The City budgeted for a total of \$760,550 in revenues and other financing sources for 2013, but ended up having revenues of \$767,539, which put the City over the revenue budget by \$6,989. A total of \$751,725 was budgeted for expenses, and actual expenditures totaled \$901,861 at the end of 2013. The City was over budget on the expenses by \$150,136, as detailed above.

CAPITAL ASSETS

As discussed in Table A-6, the City has a total of \$26,812,004 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 2.4 percent increase from last year's total investment of \$26,180,253.

The major capital additions in the governmental activities were a handicap ramp for \$36,400, fire department equipment for \$4,795 and a lawn mower for \$5,519. The business-type activities major capital additions were three water tanks for \$1,024,074, a gas line for \$2,840 and various sewer equipment for \$26,031.

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>
Land & Improvements	\$1,427,397	\$1,385,627	\$ -	\$ -	\$ 1,427,397	\$ 1,385,627
Construction in Progress	-	-	18,000	507,379	18,000	507,379
Buildings & Improvements	1,132,488	1,119,786	-	-	1,132,488	1,119,786
Vehicles & Equipment	785,796	772,083	-	-	785,796	772,083
Water & Sewer System	-	-	23,448,323	22,395,378	23,448,323	22,395,378
Total Capital Assets	<u>\$3,345,681</u>	<u>\$3,277,496</u>	<u>\$ 23,466,323</u>	<u>\$22,902,757</u>	<u>\$ 26,812,004</u>	<u>\$ 26,180,253</u>

DEBT

This year the City has \$5,519,810 in debt, a 6.5 percent decrease from last year's total of \$5,903,449. The City issued Series 2013A Revenue Bonds to refund all prior outstanding Water and Sewer Fund revenue bonds for \$5,475,000.

Table A-7

Debt Outstanding at Year End

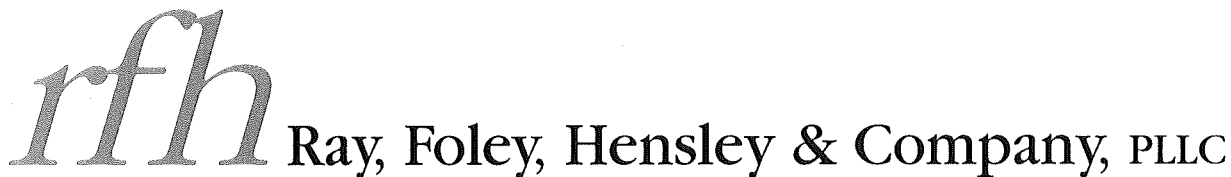
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>
Note Payable	\$ 102,894	\$ 131,193	\$ 52,404	\$ 85,756	\$ 155,298	\$ 216,949
Revenue Bond Payable	-	-	5,364,512	5,686,500	5,364,512	5,686,500
Total Debt Outstanding	<u>\$ 102,894</u>	<u>\$ 131,193</u>	<u>\$ 5,416,916</u>	<u>\$ 5,772,256</u>	<u>\$ 5,519,810</u>	<u>\$ 5,903,449</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2014 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.



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INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Liberty
Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Liberty, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated April 25, 2014, on our consideration of the City of Liberty, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering City of Liberty, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley and Company, PLLC
Lexington, Kentucky
April 25, 2014

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		Total	2012 Totals
	Governmental Activities	Business-type Activities		
ASSETS				
Current assets				
Cash	\$ 61,315	\$ 754,654	\$ 815,969	\$ 183,046
Investments	250,725	899,993	1,150,718	1,325,251
Receivables (net)	50,128	163,891	214,019	330,330
Interest receivable	282	3,395	3,677	5,324
Other assets	20,349	-	20,349	17,174
Grant receivable	-	73,064	73,064	396,899
Internal balances	(19,306)	19,306	-	-
Total current assets	<u>363,493</u>	<u>1,914,303</u>	<u>2,277,796</u>	<u>2,258,024</u>
Noncurrent assets				
Restricted assets				
Cash	-	164,250	164,250	707,755
Investments	-	-	-	281,425
Bond issue costs	-	224,656	224,656	25,814
Capital assets				
Construction in progress	-	18,000	18,000	507,379
Land and improvements	757,851	104,272	862,123	862,123
Utility systems, net	-	14,221,986	14,221,986	13,898,681
Depreciable buildings, property, and equipment, net	1,615,076	-	1,615,076	1,660,398
Total noncurrent assets	<u>2,372,927</u>	<u>14,733,164</u>	<u>17,106,091</u>	<u>17,943,575</u>
Total assets	<u>\$ 2,736,420</u>	<u>\$ 16,647,467</u>	<u>\$ 19,383,887</u>	<u>\$ 20,201,599</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 28,040	\$ 134,790	\$ 162,830	\$ 97,434
Accounts payable-construction	-	25,000	25,000	379,117
Accrued liabilities	12,081	62,067	74,148	65,840
Internal balances	-	-	-	-
Customer deposits	-	154,689	154,689	154,689
Accrued interest payable	-	14,753	14,753	40,330
Current portion of long-term obligations	29,541	282,073	311,614	234,152
Total current liabilities	<u>69,662</u>	<u>673,372</u>	<u>743,034</u>	<u>971,562</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	73,353	5,134,843	5,208,196	5,669,297
Total liabilities	<u>143,015</u>	<u>5,808,215</u>	<u>5,951,230</u>	<u>6,640,859</u>
NET POSITION				
Net investment in capital assets	2,270,033	8,927,342	11,197,375	11,025,132
Restricted for other purposes	241,751	164,250	406,001	1,189,518
Unrestricted	81,621	1,747,660	1,829,281	1,346,090
Total net position	<u>2,593,405</u>	<u>10,839,252</u>	<u>13,432,657</u>	<u>13,560,740</u>
Total liabilities and net position	<u>\$ 2,736,420</u>	<u>\$ 16,647,467</u>	<u>\$ 19,383,887</u>	<u>\$ 20,201,599</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2012 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 314,361	\$ 1,580	\$ 25,684	\$ -	\$ (287,097)	\$ -	\$ (287,097)	\$ (268,267)
Public safety-Police	345,210	1,101	14,818	-	(329,291)	-	(329,291)	(331,664)
Public safety-Fire	119,094	-	-	8,250	(110,844)	-	(110,844)	(99,213)
Street department	139,215	-	120,230	-	(18,985)	-	(18,985)	(24,763)
Interest on long-term debt	6,096	-	-	-	(6,096)	-	(6,096)	(7,284)
Total governmental activities	923,976	2,681	160,732	8,250	(752,313)	-	(752,313)	(731,191)
Business type activities								
Utility	3,124,350	2,479,545	-	521,530	-	(123,275)	(123,275)	(283,590)
Total business-type activities	3,124,350	2,479,545	-	521,530	-	(123,275)	(123,275)	(283,590)
Total primary government	\$ 4,048,326	\$ 2,482,226	\$ 160,732	\$ 529,780	(752,313)	(123,275)	(875,588)	(1,014,781)
General revenues								
Taxes								
Property taxes, levied for general purposes					266,264	-	266,264	251,972
License fee								
Franchise					71,382	-	71,382	66,737
Insurance premiums					192,662	-	192,662	272,541
Permits								
Building					3,030	-	3,030	1,650
City Stickers					21,095	-	21,095	28,606
Fines and forfeitures					1,615	-	1,615	2,160
Grants and contributions								
not restricted to specific programs					2,511	-	2,511	2,414
Investment earnings					5,805	25,353	31,158	51,587
Management fees					135,000	-	135,000	135,000
Miscellaneous					19,068	-	19,068	29,033
Total general revenues					718,432	25,353	743,785	841,700
Gain (loss) on sale of assets								
					3,720	-	3,720	409
Transfers								
					(79,771)	79,771	-	-
Total general revenues and transfers					642,381	105,124	747,505	842,109
Change in Net Position					(109,932)	(18,151)	(128,083)	(172,672)
Net position-beginning					2,703,337	10,857,403	13,560,740	13,733,412
NET POSITION-ENDING					\$ 2,593,405	\$ 10,839,252	\$ 13,432,657	\$ 13,560,740

The accompanying notes are an integral
part of the financial statements

CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
ASSETS				
Cash	\$ -	\$ 61,315	\$ 61,315	\$ 55,677
Investments	194,821	55,904	250,725	247,663
Receivables (net)	45,921	4,207	50,128	140,569
Interest receivable	282	-	282	251
Other assets	20,349	-	20,349	17,174
Due from other funds	-	125,111	125,111	85,700
	-	125,111	125,111	85,700
Total assets	\$ 261,373	\$ 246,537	\$ 507,910	\$ 547,034
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 28,040	\$ -	\$ 28,040	\$ 12,356
Accrued liabilities	12,081	-	12,081	13,391
Due to other funds	139,631	4,786	144,417	105,006
	139,631	4,786	144,417	105,006
Total liabilities	179,752	4,786	184,538	130,753
Fund balances				
Nonspendable	20,349	-	20,349	17,174
Restricted	-	241,751	241,751	200,338
Committed	250,000	-	250,000	250,000
Unassigned	(188,728)	-	(188,728)	(51,231)
	(188,728)	-	(188,728)	(51,231)
Total fund balances	81,621	241,751	323,372	416,281
Total liabilities and fund balances	\$ 261,373	\$ 246,537	\$ 507,910	\$ 547,034

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

Fund balances represented above		\$ 323,372	\$ 416,281
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,372,927	2,418,249
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(102,894)	(131,193)
Net position of governmental activities		\$ 2,593,405	\$ 2,703,337

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, 2013

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
REVENUES				
Taxes	\$ 266,264	\$ -	\$ 266,264	\$ 251,972
Licenses and permits	288,169	-	288,169	369,534
Fines and forfeits	1,615	-	1,615	2,160
Intergovernmental	51,263	120,230	171,493	269,076
Charges for service	2,681	-	2,681	2,603
Other revenues	153,827	6,046	159,873	175,556
 Total revenues	 763,819	 126,276	 890,095	 1,070,901
EXPENDITURES				
Current				
General government	248,752	2,839	251,591	407,088
Public safety-Police	327,451	-	327,451	331,863
Public safety-Fire	86,116	-	86,116	74,954
Streets department	57,191	82,024	139,215	67,050
Capital outlay	68,185	-	68,185	34,594
Debt service	34,395	-	34,395	34,395
 Total expenditures	 822,090	 84,863	 906,953	 949,944
 Excess (deficiency) of revenues over expenditures	 (58,271)	 41,413	 (16,858)	 120,957
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	3,720	-	3,720	409
Transfers in (out)	(79,771)	-	(79,771)	(66,561)
 Total other financing sources and uses	 (76,051)	 -	 (76,051)	 (66,152)
 Net change in fund balances	 (134,322)	 41,413	 (92,909)	 54,805
 Fund balances-beginning	 215,943	 200,338	 416,281	 361,476
 Fund balances-ending	 \$ 81,621	 \$ 241,751	 \$ 323,372	 \$ 416,281
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ (92,909)	\$ 54,805
add: capital outlay expenditures capitalized			68,185	34,594
add: debt service expenditures			34,395	34,395
less: depreciation on governmental activities assets			(113,507)	(112,217)
less: interest on long term debt			(6,096)	(7,284)
 Change in net position Governmental Activities			 \$ (109,932)	 \$ 4,293

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities			2013 Total	2012 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
ASSETS					
Current assets					
Cash	\$ 524,285	\$ 125,677	\$ 104,692	\$ 754,654	\$ 127,369
Investments	94,114	793,515	12,364	899,993	1,077,588
Receivables (net)	90,292	43,061	30,538	163,891	189,761
Interest receivable	110	3,285	-	3,395	5,073
Grant receivable	73,064	-	-	73,064	396,899
Due from other funds	16,913	1,393	1,000	19,306	19,306
Total current assets	<u>798,778</u>	<u>966,931</u>	<u>148,594</u>	<u>1,914,303</u>	<u>1,815,996</u>
Noncurrent assets					
Restricted assets					
Cash	164,250	-	-	164,250	707,755
Investments	-	-	-	-	281,425
Bond issue costs	224,656	-	-	224,656	25,814
Capital assets:					
Construction in progress	18,000	-	-	18,000	507,379
Land	66,872	37,400	-	104,272	104,272
Depreciable utility fixed assets	22,412,788	657,781	273,482	23,344,051	22,291,106
Less accumulated depreciation	<u>(8,490,297)</u>	<u>(473,237)</u>	<u>(158,531)</u>	<u>(9,122,065)</u>	<u>(8,392,425)</u>
Total noncurrent assets	<u>14,396,269</u>	<u>221,944</u>	<u>114,951</u>	<u>14,733,164</u>	<u>15,525,326</u>
Total assets	<u>\$ 15,195,047</u>	<u>\$ 1,188,875</u>	<u>\$ 263,545</u>	<u>\$ 16,647,467</u>	<u>\$ 17,341,322</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 93,831	\$ 26,356	\$ 14,603	\$ 134,790	\$ 85,078
Accounts payable-construction	25,000	-	-	25,000	379,117
Accrued liabilities	26,503	32,645	2,919	62,067	52,449
Customer deposits	73,308	81,381	-	154,689	154,689
Accrued interest payable	13,958	-	795	14,753	40,330
Current portion of long-term obligations	247,462	-	34,611	282,073	205,853
Total current liabilities	<u>480,062</u>	<u>140,382</u>	<u>52,928</u>	<u>673,372</u>	<u>917,516</u>
Noncurrent liabilities					
Noncurrent portion of long-term obligations	5,117,050	-	17,793	5,134,843	5,566,403
Total noncurrent liabilities	<u>5,117,050</u>	<u>-</u>	<u>17,793</u>	<u>5,134,843</u>	<u>5,566,403</u>
Total liabilities	<u>5,597,112</u>	<u>140,382</u>	<u>70,721</u>	<u>5,808,215</u>	<u>6,483,919</u>
NET POSITION					
Net investment in capital assets	8,642,851	221,944	62,547	8,927,342	8,738,076
Restricted for					
Debt service	164,250	-	-	164,250	585,183
Depreciation	-	-	-	-	403,997
Unrestricted	790,834	826,549	130,277	1,747,660	1,130,147
Total net position	<u>9,597,935</u>	<u>1,048,493</u>	<u>192,824</u>	<u>10,839,252</u>	<u>10,857,403</u>
Total liabilities and net position	<u>\$ 15,195,047</u>	<u>\$ 1,188,875</u>	<u>\$ 263,545</u>	<u>\$ 16,647,467</u>	<u>\$ 17,341,322</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Business-type Activities			2013 Total	2012 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
Operating revenues					
Charges for services	\$ 1,117,183	\$ 994,439	\$ 367,923	\$ 2,479,545	\$ 2,255,443
Total operating revenues	<u>1,117,183</u>	<u>994,439</u>	<u>367,923</u>	<u>2,479,545</u>	<u>2,255,443</u>
Operating expenses					
Salaries and wages	203,419	170,456	92,339	466,214	457,415
Casual labor	21,129	10,826	11,447	43,402	22,677
Gas purchases	-	363,284	-	363,284	365,749
Payroll taxes	14,406	12,145	6,565	33,116	32,887
Retirement	31,407	36,652	18,130	86,189	82,059
Uniforms and laundry	8,789	4,644	4,244	17,677	18,620
Maintenance and repairs	354,375	64,988	12,778	432,141	399,796
Truck expense	-	-	16,917	16,917	12,109
Motor fuel	20,133	13,091	19,575	52,799	58,356
Office expense and postage	7,739	2,495	1,428	11,662	11,201
Legal and professional	30,631	6,650	6,650	43,931	43,089
Utilities	111,218	7,744	1,070	120,032	108,513
Insurance	74,857	46,523	41,809	163,189	152,531
Dump expense	-	-	98,146	98,146	92,612
Sludge hauling	35,201	-	-	35,201	8,718
Pretreatment expenses	15,893	-	-	15,893	9,869
Management fees	43,000	66,000	26,000	135,000	135,000
Other expense	12,100	14,651	1,215	27,966	38,179
Amortization	3,338	-	-	3,338	781
Depreciation	<u>698,756</u>	<u>13,485</u>	<u>17,400</u>	<u>729,641</u>	<u>726,567</u>
Total operating expenses	<u>1,686,391</u>	<u>833,634</u>	<u>375,713</u>	<u>2,895,738</u>	<u>2,776,728</u>
Operating income (loss)	(569,208)	160,805	(7,790)	(416,193)	(521,285)
Nonoperating revenues (expenses)					
Investment earnings	12,312	12,834	207	25,353	40,064
Interest expense	<u>(226,220)</u>	<u>-</u>	<u>(2,392)</u>	<u>(228,612)</u>	<u>(244,759)</u>
Income (loss) before capital contributions and transfers	<u>(783,116)</u>	<u>173,639</u>	<u>(9,975)</u>	<u>(619,452)</u>	<u>(725,980)</u>
Capital contributions					
Water and sewer tap fees	1,100	-	-	1,100	550
Grant revenues	520,430	-	-	520,430	481,904
Transfers in (out)	<u>178,319</u>	<u>(200,858)</u>	<u>102,310</u>	<u>79,771</u>	<u>66,561</u>
Change in net position	<u>(83,267)</u>	<u>(27,219)</u>	<u>92,335</u>	<u>(18,151)</u>	<u>(176,965)</u>
Total net position-beginning	<u>9,681,202</u>	<u>1,075,712</u>	<u>100,489</u>	<u>10,857,403</u>	<u>11,034,368</u>
TOTAL NET POSITION-ENDING	<u>\$ 9,597,935</u>	<u>\$ 1,048,493</u>	<u>\$ 192,824</u>	<u>\$ 10,839,252</u>	<u>\$ 10,857,403</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, 2013

	Business-type Activities			2013 Total	2012 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,142,187	\$ 995,365	\$ 367,863	\$ 2,505,415	\$ 2,237,683
Payments to suppliers	(828,373)	(522,388)	(200,545)	(1,551,306)	(1,310,394)
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	(264,616)	(226,884)	(127,803)	(619,303)	(595,148)
Net cash provided (used) by operating activities	<u>6,198</u>	<u>180,093</u>	<u>13,515</u>	<u>199,806</u>	<u>197,141</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Bond principal payment	(5,796,988)	-	(33,352)	(5,830,340)	(197,438)
Capital contributions from grant	845,365	-	-	845,365	87,738
Proceeds from bond/loan issuance	5,475,000	-	-	5,475,000	-
Purchases of capital assets	(914,843)	(2,840)	-	(917,683)	(179,527)
Interest paid on capital debt	(251,291)	-	(2,899)	(254,190)	(245,836)
Net cash (used) by capital and related financing activities	<u>(642,757)</u>	<u>(2,840)</u>	<u>(36,251)</u>	<u>(681,848)</u>	<u>(535,063)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Net operating transfers in (out)	<u>178,319</u>	<u>(200,858)</u>	<u>102,310</u>	<u>79,771</u>	<u>66,561</u>
Net cash provided (used) by noncapital financing activities	<u>178,319</u>	<u>(200,858)</u>	<u>102,310</u>	<u>79,771</u>	<u>66,561</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>12,734</u>	<u>14,090</u>	<u>207</u>	<u>27,031</u>	<u>46,288</u>
Net cash provided by investing activities	<u>12,734</u>	<u>14,090</u>	<u>207</u>	<u>27,031</u>	<u>46,288</u>
Net increase (decrease) in cash and cash equivalents	(445,506)	(9,515)	79,781	(375,240)	(225,073)
Cash and cash equivalents-beginning of the year	<u>1,228,155</u>	<u>928,707</u>	<u>37,275</u>	<u>2,194,137</u>	<u>2,419,210</u>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 782,649</u>	<u>\$ 919,192</u>	<u>\$ 117,056</u>	<u>\$ 1,818,897</u>	<u>\$ 2,194,137</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (569,208)	\$ 160,805	\$ (7,790)	\$ (416,193)	\$ (521,285)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	698,756	13,485	17,400	729,641	726,567
Change in assets and liabilities					
Receivables, net	25,004	926	(60)	25,870	(17,700)
Other assets	(198,842)	-	-	(198,842)	781
Accounts and other payables	44,743	1,682	3,287	49,712	9,068
Accrued expenses	5,745	3,195	678	9,618	(290)
Net cash provided (used) by operating activities	<u>\$ 6,198</u>	<u>\$ 180,093</u>	<u>\$ 13,515</u>	<u>\$ 199,806</u>	<u>\$ 197,141</u>
Supplemental disclosures of cash flow information:					
Noncash capital and related financing activities:					
Payables for capital items, net	<u>\$ (354,117)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (354,117)</u>	<u>\$ 379,117</u>

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 consist of the following:

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

Government-wide Financial Statements

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

Fund Financial Statements

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting, continued

Government-wide Financial Statements

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

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. 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 Position.

F. Revenues and Receivables

General fund receivables are net of an allowance for uncollectible property taxes of \$3,532.

Proprietary receivables from customers are net of allowance for uncollectible as follows: water and sewer - \$35,008, gas - \$54,425 and garbage - \$20,389.

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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balances

Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

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

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 20,349	\$ -	\$ 20,349
Restricted:			
Road surface repairs	-	159,007	159,007
Cemetery fund	-	82,744	82,744
Committed	250,000	-	250,000
Unassigned	<u>(188,728)</u>	<u>-</u>	<u>(188,728)</u>
Total fund balances	<u>\$ 81,621</u>	<u>\$ 241,751</u>	<u>\$ 323,372</u>

Committed funds are the result of a resolution adopted by the City Council to commit \$250,000 toward the completion of the Casey County Community and Education Center project. This commitment is contingent upon the attainment of all funding needed for the completion of the college.

H. Capital Assets

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

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Use of Estimates

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

J. Other Accounting Policies

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

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

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

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

K. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through April 25, 2014, 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, 2013, have not been evaluated by the City.

2. CASH AND INVESTMENTS

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

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

Interest Rate Risk

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

2. CASH AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013 the City held investments in the following municipal and corporate bonds. Bond ratings were not available for disclosure.

Municipal Bonds

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

Corporate Bonds

Citigroup Inc Global Sub Note
 Citigroup Inc Senior Note

Custodial Credit Risk

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

The City of Liberty's deposits and investments were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$2,130,937 and the bank balances totaled \$2,327,396. As of June 30, 2013 \$3,225,501 was held as collateral by the custodial banks in the City's name.

Concentration of Credit Risk

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

The City's investments at June 30, 2013, are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
		<u>1 year or less</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of deposit	\$ 963,422	\$ 256,065	\$ 707,357	\$ -	\$ -
Money market funds	590	590	-	-	-
Mutual funds	71,023	71,023	-	-	-
Municipal bonds	104,861	-	5,309	66,057	33,495
Corporate bonds	10,822	-	10,822	-	-
	<u>\$ 1,150,718</u>	<u>\$ 327,678</u>	<u>\$ 723,488</u>	<u>\$ 66,057</u>	<u>\$ 33,495</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS

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

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 757,851	\$ -	\$ -	\$ 757,851
Capital assets that are depreciated:				
Land Improvements	\$ 627,776	\$ 41,770	\$ -	\$ 669,546
Buildings and Improvements	1,119,786	12,702	-	1,132,488
Vehicles	655,087	-	-	655,087
Equipment	116,996	13,713	-	130,709
Totals	<u>2,519,645</u>	<u>68,185</u>	<u>-</u>	<u>2,587,830</u>
Total Capital Assets	<u>3,277,496</u>	<u>68,185</u>	<u>-</u>	<u>3,345,681</u>
Less Accumulated Depreciation:				
Land Improvements	63,571	32,002	-	95,573
Buildings and Improvements	314,995	32,537	-	347,532
Vehicles	448,040	36,919	-	484,959
Equipment	32,641	12,049	-	44,690
Totals	<u>859,247</u>	<u>113,507</u>	<u>-</u>	<u>972,754</u>
Capital assets, net	<u>\$ 2,418,249</u>	<u>\$ (45,322)</u>	<u>\$ -</u>	<u>\$ 2,372,927</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	507,379	-	(489,379)	18,000
Totals	<u>611,651</u>	<u>-</u>	<u>(489,379)</u>	<u>122,272</u>
Capital assets that are depreciated:				
Water Plant	\$ 12,614,180	\$ 1,024,074	\$ -	13,638,254
Sewer Plant	8,748,503	26,031	-	8,774,534
Gas Lines & Equipment	654,941	2,840	-	657,781
Garbage Equipment	273,482	-	-	273,482
Totals	<u>22,291,106</u>	<u>1,052,945</u>	<u>-</u>	<u>23,344,051</u>
Total Capital Assets	<u>22,902,757</u>	<u>1,052,945</u>	<u>(489,379)</u>	<u>23,466,323</u>
Less Accumulated Depreciation				
Depreciation	<u>8,392,425</u>	<u>729,640</u>	<u>-</u>	<u>9,122,065</u>
Capital Assets, net	<u>\$ 14,510,332</u>	<u>\$ 323,305</u>	<u>\$ (489,379)</u>	<u>\$ 14,344,258</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 62,770
Police	17,759
Fire	<u>32,978</u>
Total Depreciation Expense	<u>\$ 113,507</u>

4. LONG - TERM DEBT

BUSINESS - TYPE ACTIVITIES

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

The following is a summary of the revenue bonds outstanding for the year ended June 30, 2013 and 2012:

Revenue Bonds and Loans Payable	Outstanding June 30, 2013	Outstanding June 30, 2012
Water and Sewer Fund - \$1,300,000		
1976 Series due in annual installments of \$10,000 to \$92,000 through 2016, Interest at 5%	\$ -	\$ 344,000
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%	-	475,000
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%	-	747,100
Water and Sewer Fund - \$436,000		
2001 Series due in annual installments of \$4,500 to \$21,500 through 2041, Interest at 4.5%	-	387,000
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%	-	1,225,500
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%	-	1,692,500
Water and Sewer Fund - \$828,000		
2009 Series due in annual installments of \$12,600 to \$34,100 through 2049, Interest at 2.375%	-	815,400
Water and Sewer Fund - \$5,475,000		
Kentucky Bond Corporation – 2013A Series due in monthly installments of \$12,917 to \$21,364 through 2040, Interest at 2.0%-3.4%	5,389,545	-
Defeasance resulting from refunding activity	<u>(25,033)</u>	<u>-</u>
	<u>\$ 5,364,512</u>	<u>\$ 5,686,500</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

4. LONG - TERM DEBT (Continued)

BUSINESS - TYPE ACTIVITIES, continued

During 2010, the City entered into a lease-purchase agreement with Branch Banking & Trust (BB&T) for the purchase of a garbage truck. The agreement requires semi-annual payments of \$18,125 over a period of 5 years and the interest rate is fixed at 3.74%. The total cost of the garbage truck was \$163,924 and the net book value at June 30, 2013 was \$101,086.

The future capital lease payments are summarized as follows:

	Principal	Interest	Total
2014	\$ 34,611	\$ 1,639	\$ 36,250
2015	<u>17,793</u>	<u>333</u>	<u>18,126</u>
	<u>\$ 52,404</u>	<u>\$ 1,972</u>	<u>\$ 54,376</u>

The following is a summary of the changes in long – term debt for the year ended June 30, 2013:

	July 1, 2012	Additions	Retirements	June 30, 2013
W&S Bond 1976	\$ 344,000	\$ -	\$ (344,000)	\$ -
W&S Bond 1988	475,000	-	(475,000)	-
W&S Bond 1996	747,100	-	(747,100)	-
W&S Bond 2001	387,000	-	(387,000)	-
W&S Bond 2007	1,225,500	-	(1,225,500)	-
W&S Bond 2008	1,692,500	-	(1,692,500)	-
W&S Bond 2009	815,400	-	(815,400)	-
W&S Bond 2013A	-	5,475,000	(85,455)	5,389,545
Defeasance from Refunding	-	(25,293)	260	(25,033)
Garbage Truck Lease	<u>85,756</u>	<u>-</u>	<u>(33,352)</u>	<u>52,404</u>
	<u>\$ 5,772,256</u>	<u>\$ 5,449,707</u>	<u>\$ (5,805,047)</u>	<u>\$ 5,416,916</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2013, are as follows:

June 30	Principal	Interest	Total
2014	\$ 282,073	\$ 166,190	\$ 448,263
2015	254,876	157,725	412,601
2016	221,250	152,058	373,308
2017	195,000	147,079	342,079
2018	197,083	142,692	339,775
2019-2023	1,060,417	638,774	1,699,191
2024-2028	1,137,500	480,308	1,617,808
2029-2033	967,917	304,650	1,272,567
2034-2038	871,667	142,113	1,013,780
2039-2040	<u>254,166</u>	<u>13,765</u>	<u>267,931</u>
	<u>5,441,949</u>	<u>2,345,354</u>	<u>7,787,303</u>
Unamortized Defeasance	<u>(25,033)</u>		
	<u>\$ 5,416,916</u>	<u>\$ 2,345,354</u>	<u>\$ 7,762,270</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

4. LONG - TERM DEBT (Continued)

The water and sewer fund is in compliance with all significant limitations and restrictions contained in the bond indenture. As of June 30, 2013 the amount reserved for bond principal and interest payments was \$164,250. Additionally, the City has designated \$36,611 to be used for bond principal and interest payments and \$408,055 as a depreciation reserve.

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, 2013 the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
2014	\$ 22,225	\$ 4,635	\$ 26,860
2015	23,302	3,558	26,860
2016	24,433	2,427	26,860
2017	<u>25,618</u>	<u>1,242</u>	<u>26,860</u>
	<u>\$ 95,578</u>	<u>\$ 11,862</u>	<u>\$ 107,440</u>

The following is a summary of changes in general long – term debt for the year ended June 30, 2013:

	July 1, 2012	Additions	Retirements	June 30, 2013
KY Fire Commission Loan	\$ 14,419	\$ -	\$ (7,103)	\$ 7,316
Osh Kosh Capital Lease	<u>116,774</u>	<u>-</u>	<u>(21,196)</u>	<u>95,578</u>
	<u>\$ 131,193</u>	<u>\$ -</u>	<u>\$ (28,299)</u>	<u>\$ 102,894</u>

The following is a summary of debt service requirements as of June 30, 2013:

June 30	Principal	Interest	Total
2014	\$ 29,541	\$ 4,855	\$ 34,396
2015	23,302	3,558	26,860
2016	24,433	2,427	26,860
2017	<u>25,618</u>	<u>1,243</u>	<u>26,861</u>
TOTAL	<u>\$ 102,894</u>	<u>\$ 12,083</u>	<u>\$ 114,977</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

5. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2013 were levied in October 2012 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.

6. 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.

Contributions – For the year ended June 30, 2013, 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, 2013, participating employers contributed 19.55%, 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>
2013	\$ 157,398	100%
2012	\$ 157,323	100%
2011	\$ 159,906	100%

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

7. 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.

8. RECLASSIFICATIONS

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

9. CONCENTRATIONS

The City has a concentration of revenue in the Water and Sewer Fund and the Gas Fund. One customer generated approximately 44% of the Water and Sewer Fund's service revenue and 47% of the accounts receivable at June 30, 2013. In addition, one industrial company generated approximately 28% of gas service charges and comprised 48% of the accounts receivable balance reported in the Gas Fund at June 30, 2013.

10. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Liberty's unfunded liability would be approximately \$1,600,000, based on the 2011 actuarial analysis. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.

SUPPLEMENTAL INFORMATION

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes				
Property taxes & motor vehicle taxes	\$ 240,000	\$ 255,000	\$ 255,868	\$ 868
Payment in lieu of taxes	8,000	9,000	10,396	1,396
	<u>248,000</u>	<u>264,000</u>	<u>266,264</u>	<u>2,264</u>
Licenses, permits, billings				
City stickers	15,000	13,000	21,095	8,095
Franchise fees	67,000	68,000	71,382	3,382
Insurance premiums	225,000	210,000	192,662	(17,338)
Building permits	1,900	2,000	3,030	1,030
	<u>308,900</u>	<u>293,000</u>	<u>288,169</u>	<u>(4,831)</u>
Fines and forfeitures				
Parking Tickets/Arrest Fees	2,700	1,600	1,615	15
	<u>2,700</u>	<u>1,600</u>	<u>1,615</u>	<u>15</u>
Intergovernmental revenue				
Base court revenue	10,000	11,000	11,334	334
Police incentive pay	16,300	14,500	14,818	318
Local economic assistance	2,300	2,300	2,511	211
Other grants	14,600	10,500	14,350	3,850
Fire equipment grant	8,250	8,250	8,250	-
	<u>51,450</u>	<u>46,550</u>	<u>51,263</u>	<u>4,713</u>
Charges for services				
Fishing permits	1,200	1,200	1,580	380
Accident reports	1,125	1,000	1,101	101
	<u>2,325</u>	<u>2,200</u>	<u>2,681</u>	<u>481</u>
Other revenues				
Interest income	2,500	1,200	5,334	4,134
Management fees	135,000	135,000	135,000	-
Other revenues	62,000	17,000	13,493	(3,507)
	<u>199,500</u>	<u>153,200</u>	<u>153,827</u>	<u>627</u>
Sale of asset				
	-	-	3,720	3,720
Total Revenue	<u>\$ 812,875</u>	<u>\$ 760,550</u>	<u>\$ 767,539</u>	<u>\$ 6,989</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government				
Salaries	\$ 98,900	\$ 96,300	\$ 96,072	\$ (228)
Payroll taxes and employee benefits	28,183	29,625	25,584	(4,041)
KY ASAP grant	11,000	10,000	6,009	(3,991)
Planning and zoning expenses	6,000	6,000	5,817	(183)
Professional services	9,000	9,000	6,095	(2,905)
Utilities	10,000	10,000	9,164	(836)
Office supplies	3,400	3,400	916	(2,484)
Insurance	18,000	18,000	24,057	6,057
Travel/lodging	2,500	4,000	2,942	(1,058)
Lake Liberty expenses	3,500	2,000	301	(1,699)
Postage	1,400	1,400	-	(1,400)
Dues and subscriptions	-	-	250	250
Parks and recreation	30,000	18,000	13,874	(4,126)
CERF reimbursement	-	50,000	-	(50,000)
Fireworks	17,500	20,300	19,574	(726)
Other expenses	43,200	27,500	38,097	10,597
	<u>282,583</u>	<u>305,525</u>	<u>248,752</u>	<u>(56,773)</u>
Police				
Salaries	242,100	195,400	195,084	(316)
Payroll taxes and employee benefits	88,356	77,240	68,768	(8,472)
Motor fuels	18,000	18,000	17,756	(244)
Utilities	4,000	4,000	3,750	(250)
Equipment	15,000	15,000	10,782	(4,218)
Vehicle repairs	8,000	8,000	4,197	(3,803)
Uniforms	2,000	2,000	2,641	641
Insurance	17,000	17,000	16,696	(304)
Travel and lodging	500	500	100	(400)
Miscellaneous	4,500	10,500	7,677	(2,823)
	<u>399,456</u>	<u>347,640</u>	<u>327,451</u>	<u>(20,189)</u>
Fire				
Labor	39,400	45,750	45,950	200
Repairs and maintenance	2,000	3,200	3,190	(10)
Equipment	15,000	15,000	12,174	(2,826)
Utilities	8,400	8,400	8,916	516
Insurance	5,200	5,200	4,854	(346)
Motor fuel	4,000	5,300	5,187	(113)
Miscellaneous	3,000	5,850	5,845	(5)
	<u>77,000</u>	<u>88,700</u>	<u>86,116</u>	<u>(2,584)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Streets and Public Works				
Street repairs	\$ 10,000	\$ 1,100	\$ 5,225	\$ 4,125
Repairs and maintenance	2,000	2,000	1,046	(954)
Utilities	50,000	50,000	50,502	502
Supplies	6,000	6,000	418	(5,582)
Insurance	2,300	2,300	-	(2,300)
Motor fuel	3,500	-	-	-
Miscellaneous expenses	2,000	-	-	-
	<u>75,800</u>	<u>61,400</u>	<u>57,191</u>	<u>(4,209)</u>
Capital Outlay	<u>16,000</u>	<u>23,350</u>	<u>68,185</u>	<u>44,835</u>
Debt Service	<u>35,110</u>	<u>35,110</u>	<u>34,395</u>	<u>(715)</u>
Total Expenditures	<u>885,949</u>	<u>861,725</u>	<u>822,090</u>	<u>(39,635)</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>160,000</u>	<u>110,000</u>	<u>(79,771)</u>	<u>(189,771)</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 725,949</u>	<u>\$ 751,725</u>	<u>\$ 901,861</u>	<u>\$ 150,136</u>

**CITY OF LIBERTY, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	<u>Cemetery Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 31,626	\$ 29,689	\$ 61,315
Investments	55,904	-	55,904
Receivables, net	-	4,207	4,207
Due from other funds	<u>-</u>	<u>125,111</u>	<u>125,111</u>
 Total assets	 <u>\$ 87,530</u>	 <u>\$ 159,007</u>	 <u>\$ 246,537</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 4,786	\$ -	\$ 4,786
Total liabilities	<u>4,786</u>	<u>-</u>	<u>4,786</u>
 Fund balance	 <u>82,744</u>	 <u>159,007</u>	 <u>241,751</u>
 Total liabilities and fund balances	 <u>\$ 87,530</u>	 <u>\$ 159,007</u>	 <u>\$ 246,537</u>

CITY OF LIBERTY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	Cemetery Fund	Municipal Road Aid Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 120,230	\$ 120,230
Other revenues	6,046	-	6,046
Total revenues	6,046	120,230	126,276
EXPENDITURES			
Current			
General government	2,839	-	2,839
Streets department	-	82,024	82,024
Total expenditures	2,839	82,024	84,863
Excess (deficiency) of revenues over expenditures	3,207	38,206	41,413
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	3,207	38,206	41,413
Fund balances-beginning	79,537	120,801	200,338
Fund balances-ending	\$ 82,744	\$ 159,007	\$ 241,751

CITY OF LIBERTY, KENTUCKY
COMBINING STATEMENT OF OPERATING REVENUES AND EXPENSES
WATER AND SEWER PROPRIETARY FUND
for the year ended June 30, 2013

	WATER	SEWER	2013 TOTAL	2012 Totals
OPERATING REVENUES				
Charges for service	\$ 792,082	\$ 325,101	\$ 1,117,183	\$ 1,095,170
	<u>792,082</u>	<u>325,101</u>	<u>1,117,183</u>	<u>1,095,170</u>
OPERATING EXPENSES				
Salaries and wages	149,111	54,308	203,419	222,255
Casual labor	8,669	12,460	21,129	15,448
Payroll taxes	10,560	3,846	14,406	15,948
Retirement	23,022	8,385	31,407	35,994
Uniforms and laundry	4,844	3,945	8,789	7,513
Maintenance and repairs	263,911	90,464	354,375	324,092
Motor fuel	12,868	7,265	20,133	19,703
Office expense and postage	3,987	3,752	7,739	6,101
Legal and professional	14,636	15,995	30,631	32,123
Utilities	60,962	50,256	111,218	98,760
Insurance	50,558	24,299	74,857	67,306
Sludge hauling	27,882	7,319	35,201	8,718
Pretreatment expenses	-	15,893	15,893	9,869
Management fees	32,714	10,286	43,000	43,000
Other expense	4,695	7,405	12,100	31,644
Amortization	3,338	-	3,338	781
Depreciation	323,331	375,425	698,756	696,424
	<u>995,088</u>	<u>691,303</u>	<u>1,686,391</u>	<u>1,635,679</u>
OPERATING INCOME	<u>\$ (203,006)</u>	<u>\$ (366,202)</u>	<u>\$ (569,208)</u>	<u>\$ (540,509)</u>



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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

Mayor and the City Council
City of Liberty
Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Liberty, Kentucky's basic financial statements, and have issued our report thereon dated April 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Liberty, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Liberty, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Liberty, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Liberty, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley and Company, PLLC
Lexington, Kentucky
April 25, 2014