

CITY OF LIBERTY
Liberty, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

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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, 2011. Please read in conjunction with the auditors' report on page 9-10 and the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The City's net assets decreased in the governmental activities and in the business-type activities. The net assets of the governmental activities decreased by \$124,504, and the net assets of the business-type activities decreased to \$11,034,368, which was a 3.7 percent increase from the previous year.
- In the City's governmental activities, revenues decreased by \$733,381, or 45.1 percent, and expenses increased by 14.3 percent to \$1,013,855. In the business-type activities, revenues decreased to \$2,910,829 which is a decrease of 26 percent, while expenses increased by 14.1 percent to \$3,341,486.

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 and the independent auditors' report on compliance. 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.

Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Current and Other Assets	\$ 388,563	\$ 600,831	\$ 2,650,652	\$ 2,903,437	\$ 3,039,215	\$ 3,504,268
Capital Assets	<u>2,495,872</u>	<u>2,446,960</u>	<u>14,678,255</u>	<u>15,146,770</u>	<u>17,174,127</u>	<u>17,593,730</u>
Total Assets	<u>2,884,435</u>	<u>3,047,791</u>	<u>17,328,907</u>	<u>18,050,207</u>	<u>20,213,342</u>	<u>21,097,998</u>
Long-Term Debt Outstanding	131,193	158,303	5,772,255	5,969,695	5,903,448	6,127,998
Current Liabilities	<u>54,198</u>	<u>65,940</u>	<u>522,284</u>	<u>620,638</u>	<u>576,482</u>	<u>686,578</u>
Total Liabilities	<u>185,391</u>	<u>224,243</u>	<u>6,294,539</u>	<u>6,590,333</u>	<u>6,479,930</u>	<u>6,814,576</u>
Net Assets:						
Invested in Capital Assets, net of related debt	2,337,568	2,262,682	8,708,561	9,018,506	11,046,129	11,281,188
Restricted	148,874	141,720	975,279	927,351	1,124,153	1,069,071
Unrestricted	<u>212,602</u>	<u>419,146</u>	<u>1,350,528</u>	<u>1,514,017</u>	<u>1,563,130</u>	<u>1,933,163</u>
Total Net Assets	<u>\$ 2,699,044</u>	<u>\$ 2,823,548</u>	<u>\$ 11,034,368</u>	<u>\$ 11,459,874</u>	<u>\$ 13,733,412</u>	<u>\$ 14,283,422</u>

The net assets of the City's governmental activities decreased from \$2,823,548 in 2010 to \$2,699,044 in 2011. The net assets of the business-type activities decreased from \$11,459,874 to \$11,034,368 in 2011, which is a 3.7 percent decrease. 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 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 2,975	\$ 2,683	\$ 2,506,616	\$ 2,445,768	\$ 2,509,591	\$ 2,448,451
Operating Grants & Contributions	74,070	278,035	-	-	74,070	278,035
Capital Grants & Contributions	8,250	444,139	338,821	1,402,883	347,071	1,847,022
<u>General Revenue</u>						
Taxes	254,031	242,062	-	-	254,031	242,062
License fees	246,952	254,993	-	-	246,952	254,993
Permits	19,595	17,188	-	-	19,595	17,188
Other Grants and Contributions	2,264	149,924	-	-	2,264	149,924
Investment Earnings	6,885	9,748	65,392	85,330	72,277	95,078
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	<u>142,426</u>	<u>92,057</u>	<u>-</u>	<u>-</u>	<u>142,426</u>	<u>92,057</u>
Total Revenue	<u>892,448</u>	<u>1,625,829</u>	<u>2,910,829</u>	<u>3,933,981</u>	<u>3,803,277</u>	<u>5,559,810</u>
<u>Program Expenses</u>						
General Government	376,898	365,220	-	-	376,898	365,220
Public Safety - Police	377,453	340,715	-	-	377,453	340,715
Public Safety - Fire	162,500	111,265	-	-	162,500	111,265
Streets Department	88,583	60,577	-	-	88,583	60,577
Interest on Long-term Debt	8,421	9,507	-	-	8,421	9,507
Utility	-	-	<u>3,341,486</u>	<u>2,927,844</u>	<u>3,341,486</u>	<u>2,927,844</u>
Total Program Expenses	<u>1,013,855</u>	<u>887,284</u>	<u>3,341,486</u>	<u>2,927,844</u>	<u>4,355,341</u>	<u>3,815,128</u>
<u>Other Changes</u>						
Donation of asset	-	15,000	-	-	-	15,000
Transfers	(10,582)	326,198	10,582	(326,198)	-	-
Contributed capital to governmental fund	5,431	-	(5,431)	-	-	-
Gain (loss) on sale of assets	<u>2,054</u>	<u>(7,097)</u>	<u>-</u>	<u>18,296</u>	<u>2,054</u>	<u>11,199</u>
Total Other Changes	<u>(3,097)</u>	<u>334,101</u>	<u>5,151</u>	<u>(307,902)</u>	<u>2,054</u>	<u>26,199</u>
Change In Net Assets	<u>\$ (124,504)</u>	<u>\$ 1,072,646</u>	<u>\$ (425,506)</u>	<u>\$ 698,235</u>	<u>\$ (550,010)</u>	<u>\$ 1,770,881</u>

The City's total revenue decreased by 31.6 percent and the total cost of all programs reflected an increase of 14.2 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 2011</u>	<u>FY2010</u>	<u>Change</u>
Taxes	\$ 254,031	\$ 242,062	\$ 11,969
Licenses and permits	266,547	272,181	(5,634)
Fines and Forfeits	2,695	2,668	27
Intergovernmental	230,651	716,956	(486,305)
Charges for Services	2,975	2,683	292
Other Revenues	290,691	234,137	56,554
Sale of asset	-	-	-
Total Revenues	<u>\$ 1,047,590</u>	<u>\$ 1,470,687</u>	<u>\$ (423,097)</u>
General Government	\$ 319,229	\$ 336,974	\$ (17,745)
Public Safety	491,068	404,895	86,173
Streets Department	88,583	60,577	28,006
Capital Outlay	150,035	920,452	(770,417)
Debt Service	<u>34,395</u>	<u>34,395</u>	<u>-</u>
Total Expenditures	<u>1,083,310</u>	<u>1,757,293</u>	<u>(673,983)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (35,720)</u>	<u>\$ (286,606)</u>	<u>\$ 250,886</u>

Revenues for the City's governmental activities decreased by 28.8 percent, while total expenditures decreased by 38.4 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) increased by \$250,886. The City's major sources of revenue in the governmental activities are other revenue (27.7 percent), licenses and permits (25.4 percent), taxes (24.2 percent) and intergovernmental (22 percent). These revenue sources decreased 28.8 percent in 2011. 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 decrease in capital outlay of \$770,417 which is discussed on page 7.

BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, revenues for the City decreased to \$2,910,829, or 26.0 percent, while total expenses decreased 14.1 percent. The decrease of revenues combined with the decrease of expenses and increase in other changes decreased the change in net assets to (\$425,506). The City's major source of revenue in the business-type activities is charges for services, which increased to \$2,506,616. This revenue source makes up 86.1 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	\$ 248,851	\$ 254,031	\$ 5,180
Licenses and permits	258,900	266,547	7,647
Fines and Forfeitures	2,700	2,695	(5)
Intergovernmental	268,150	191,720	(76,430)
Charges for Services	2,975	2,975	-
Other Revenues	264,100	329,622	65,522
Sale of Asset	-	2,054	2,054
Total Revenues and Other Financing Sources	<u>\$1,045,676</u>	<u>\$1,049,644</u>	<u>\$ 3,968</u>

Table A-5

Condensed Governmental Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 355,799	\$ 319,229	\$ (36,570)
Public Safety	498,150	491,068	(7,082)
Streets Department	94,900	88,583	(6,317)
Transfers (in) out	160,000	(10,582)	(170,582)
Debt Service	35,110	34,395	(715)
Capital Outlay	<u>130,975</u>	<u>150,035</u>	<u>19,060</u>
Total Expenditures	<u>\$1,274,934</u>	<u>\$1,072,728</u>	<u>\$(202,206)</u>

The City budgeted for a total of \$1,045,676 in revenues and other financing sources for 2011, but ended up having revenues of \$1,049,644, which put the City over the revenue budget by \$3,968. A total of \$1,274,934 was budgeted for expenses, and actual expenditures totaled \$1,072,728 at the end of 2011. The City was under budget on the expenses by \$202,206, as detailed above.

CAPITAL ASSETS

As discussed in Table A-6, the City has a total of \$25,587,015 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 1.6 percent increase from last year's total investment of \$25,186,698.

The major capital additions in the governmental activities were the Liberty Crossing project for \$47,205, a railroad caboose for \$29,894, land for \$22,275 and a mower for \$19,100. The business-type activities major capital additions were a utility truck for \$38,161, a mapping system for the utility lines of \$31,925 and utility computer software \$14,685.

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
Land & Improvements	\$ 1,367,168	\$ 1,292,761	\$ -	\$ -	\$ 1,367,168	\$ 1,292,761
Construction in Progress	-	-	67,016	28,000	67,016	28,000
Buildings & Improvements	1,119,786	1,089,892	-	-	1,119,786	1,089,892
Vehicles & Equipment	755,948	704,784	-	-	755,948	704,784
Water & Sewer System	-	-	22,277,097	22,071,261	22,277,097	22,071,261
Total Capital Assets	<u>\$ 3,242,902</u>	<u>\$ 3,087,437</u>	<u>\$ 22,344,113</u>	<u>\$ 22,099,261</u>	<u>\$ 25,587,015</u>	<u>\$ 25,186,698</u>

At June 30, 2011, the City had substantially completed all of its water and sewer projects. However, there were two small water and sewer projects in progress with a cost as of that date of \$34,258 and a small gas line project with a cost as of that date of \$32,758.

DEBT

This year the City has \$6,127,998 in debt, a 2.9 percent decrease from last year's total of \$6,312,542. The City issued no new debt during the year.

Table A-7

Debt Outstanding at Year End

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
Note Payable	\$ 158,304	\$ 184,278	\$ 117,894	\$ 148,864	\$ 276,198	\$ 333,142
Revenue Bond Payable	-	-	5,851,800	5,979,400	5,851,800	5,979,400
Total Debt Outstanding	<u>\$ 158,304</u>	<u>\$ 184,278</u>	<u>\$ 5,969,694</u>	<u>\$ 6,128,264</u>	<u>\$ 6,127,998</u>	<u>\$ 6,312,542</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2012 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 AUDITOR'S REPORT

J. Carroll Luby, CPA

Mayor and the City Council
City of Liberty
Liberty, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Liberty, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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 financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2012, 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* and should be considered in assessing the results of our audit.

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 29 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.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

March 20, 2012

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			2010 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash	\$ 62,819	\$ 85,625	\$ 148,444	\$ 319,809
Investments	237,769	1,347,308	1,585,077	1,605,809
Receivables (net)	88,672	172,061	260,733	464,378
Interest receivable	309	11,297	11,606	14,624
Other assets	18,300	-	18,300	20,273
Grant receivable	-	2,183	2,183	116,170
Internal balances	(19,306)	19,306	-	-
Total current assets	<u>388,563</u>	<u>1,637,780</u>	<u>2,026,343</u>	<u>2,541,063</u>
Noncurrent assets				
Restricted assets				
Cash	-	710,524	710,524	671,095
Investments	-	275,753	275,753	267,143
Bond issue costs	-	26,595	26,595	24,967
Capital assets				
Construction in progress	-	67,016	67,016	28,000
Land and improvements	757,851	104,272	862,123	838,921
Utility systems, net	-	14,506,967	14,506,967	15,014,498
Depreciable buildings, property, and equipment, net	<u>1,738,021</u>	<u>-</u>	<u>1,738,021</u>	<u>1,712,311</u>
Total noncurrent assets	<u>2,495,872</u>	<u>15,691,127</u>	<u>18,186,999</u>	<u>18,556,935</u>
Total assets	<u>\$ 2,884,435</u>	<u>\$ 17,328,907</u>	<u>\$ 20,213,342</u>	<u>\$ 21,097,998</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 11,782	\$ 76,010	\$ 87,792	\$ 112,764
Accounts payable-construction	-	-	-	113,987
Accrued liabilities	15,305	52,559	67,864	77,431
Internal balances	-	-	-	-
Customer deposits	-	154,869	154,869	154,959
Accrued interest payable	-	41,407	41,407	42,893
Current portion of long-term obligations	<u>27,111</u>	<u>197,439</u>	<u>224,550</u>	<u>184,544</u>
Total current liabilities	<u>54,198</u>	<u>522,284</u>	<u>576,482</u>	<u>686,578</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	<u>131,193</u>	<u>5,772,255</u>	<u>5,903,448</u>	<u>6,127,998</u>
Total liabilities	<u>185,391</u>	<u>6,294,539</u>	<u>6,479,930</u>	<u>6,814,576</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,337,568	8,708,561	11,046,129	11,281,188
Restricted for other purposes	148,874	975,279	1,124,153	1,069,071
Unrestricted	<u>212,602</u>	<u>1,350,528</u>	<u>1,563,130</u>	<u>1,933,163</u>
Total net assets	<u>2,699,044</u>	<u>11,034,368</u>	<u>13,733,412</u>	<u>14,283,422</u>
Total liabilities and net assets	<u>\$ 2,884,435</u>	<u>\$ 17,328,907</u>	<u>\$ 20,213,342</u>	<u>\$ 21,097,998</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, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2010 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 376,898	\$ 1,820	\$ 18,712	\$ -	\$ (356,366)	\$ -	\$ (356,366)	\$ 218,475
Public safety-Police	377,453	1,155	16,427	-	(359,871)	-	(359,871)	(270,070)
Public safety-Fire	162,500	-	-	8,250	(154,250)	-	(154,250)	(103,015)
Street department	88,583	-	38,931	-	(49,652)	-	(49,652)	1,690
Interest on long-term debt	8,421	-	-	-	(8,421)	-	(8,421)	(9,507)
Total governmental activities	<u>1,013,855</u>	<u>2,975</u>	<u>74,070</u>	<u>8,250</u>	<u>(928,560)</u>	<u>-</u>	<u>(928,560)</u>	<u>(162,427)</u>
Business type activities								
Utility	<u>3,341,486</u>	<u>2,506,616</u>	<u>-</u>	<u>338,821</u>	<u>-</u>	<u>(496,049)</u>	<u>(496,049)</u>	<u>920,807</u>
Total business-type activities	<u>3,341,486</u>	<u>2,506,616</u>	<u>-</u>	<u>338,821</u>	<u>-</u>	<u>(496,049)</u>	<u>(496,049)</u>	<u>920,807</u>
Total primary government	<u>\$ 4,355,341</u>	<u>\$ 2,509,591</u>	<u>\$ 74,070</u>	<u>\$ 347,071</u>	<u>(928,560)</u>	<u>(496,049)</u>	<u>(1,424,609)</u>	<u>758,380</u>
General revenues								
Taxes								
					254,031	-	254,031	242,062
					67,195	-	67,195	67,004
					179,757	-	179,757	187,989
Permits								
					1,895	-	1,895	2,315
					17,700		17,700	14,873
					2,695		2,695	2,668
Grants and contributions								
					2,264	-	2,264	149,924
Investment earnings								
					6,885	65,392	72,277	95,078
Management fees								
					135,000		135,000	135,000
Miscellaneous								
					139,731	-	139,731	89,389
					807,153	65,392	872,545	986,302
Total general revenues								
					-	-	-	15,000
					2,054	-	2,054	11,199
					5,431	(5,431)	-	-
					(10,582)	10,582	-	-
Total general revenues and transfers								
					804,056	70,543	874,599	1,012,501
Change in Net Assets								
					(124,504)	(425,506)	(550,010)	1,770,881
Net assets-beginning								
					2,823,548	11,459,874	14,283,422	12,512,541
NET ASSETS-ENDING								
					\$ 2,699,044	\$ 11,034,368	\$ 13,733,412	\$ 14,283,422

The accompanying notes are an integral
part of the financial statements

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

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
ASSETS				
Cash	\$ -	\$ 62,819	\$ 62,819	\$ 57,218
Investments	186,438	51,331	237,769	233,205
Receivables (net)	83,527	5,145	88,672	154,006
Interest receivable	309	-	309	293
Other assets	18,300	-	18,300	20,273
Due from other funds	-	34,365	34,365	11,162
	<u>\$ 288,574</u>	<u>\$ 153,660</u>	<u>\$ 442,234</u>	<u>\$ 476,157</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 11,782	\$ -	\$ 11,782	\$ 23,803
Accrued liabilities	15,305	-	15,305	16,162
Due to other funds	48,885	4,786	53,671	30,468
	<u>75,972</u>	<u>4,786</u>	<u>80,758</u>	<u>70,433</u>
Fund balances:				
Nonspendable	18,300	-	-	20,273
Restricted	-	148,874	148,874	141,720
Unassigned	194,302	-	194,302	243,731
	<u>212,602</u>	<u>148,874</u>	<u>361,476</u>	<u>405,724</u>
Total fund balances	<u>212,602</u>	<u>148,874</u>	<u>361,476</u>	<u>405,724</u>
Total liabilities and fund balances	<u>\$ 288,574</u>	<u>\$ 153,660</u>	<u>\$ 442,234</u>	<u>\$ 476,157</u>
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because				
Fund balances represented above			\$ 361,476	\$ 405,724
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,495,872	2,446,960
Long-term receivables are not current financial resources and therefore are not reported in the funds			-	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.			(158,304)	(184,278)
Net assets of governmental activities			<u>\$ 2,699,044</u>	<u>\$ 2,823,548</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, 2011

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
REVENUES				
Taxes	\$ 254,031	\$ -	\$ 254,031	\$ 242,062
Licenses and permits	266,547	-	266,547	272,181
Fines and forfeits	2,695	-	2,695	2,668
Intergovernmental	191,720	38,931	230,651	716,956
Charges for service	2,975	-	2,975	2,683
Other revenues	284,001	6,690	290,691	234,137
Total revenues	1,001,969	45,621	1,047,590	1,470,687
EXPENDITURES				
Current:				
General government	317,115	2,114	319,229	336,974
Public safety-Police	359,177	-	359,177	323,289
Public safety-Fire	131,891	-	131,891	81,606
Streets department	65,899	22,684	88,583	60,577
Capital outlay	136,366	13,669	150,035	920,452
Debt service	34,395	-	34,395	34,395
Total expenditures	1,044,843	38,467	1,083,310	1,757,293
Excess (deficiency) of revenues over expenditures	(42,874)	7,154	(35,720)	(286,606)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	2,054		2,054	10,325
Transfers in (out)	(10,582)	-	(10,582)	326,198
Total other financing sources and uses	(8,528)	-	(8,528)	336,523
Net change in fund balances	(51,402)	7,154	(44,248)	49,917
Fund balances-beginning	264,004	141,720	405,724	355,807
Fund balances-ending	\$ 212,602	\$ 148,874	\$ 361,476	\$ 405,724
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ (44,248)	\$ 49,917
add: donation of capital assets			-	15,000
less: long-term receivable received in current year			(155,142)	155,142
less: proceeds from sale of asset				(10,325)
add: capital outlay expenditures capitalized			150,035	920,452
add: capital asset contributed by proprietary fund			5,431	-
add: debt service expenditures			34,395	34,395
less: disposal of capital assets loss			-	(7,097)
less: depreciation on governmental activities assets			(106,554)	(75,331)
less: interest on long term debt			(8,421)	(9,507)
Change in net assets Governmental Activities			\$ (124,504)	\$ 1,072,646

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

CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities			2011 Total	2010 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
ASSETS					
Current assets					
Cash	\$ 68,720	\$ 16,905	\$ -	\$ 85,625	\$ 262,591
Investments	151,822	1,183,567	11,919	1,347,308	1,372,604
Receivables (net)	102,666	44,286	25,109	172,061	155,230
Interest receivable	991	10,306	-	11,297	14,331
Grant receivable	2,183	-	-	2,183	116,170
Due from other funds	16,913	1,393	1,000	19,306	19,306
Total current assets	<u>343,295</u>	<u>1,256,457</u>	<u>38,028</u>	<u>1,637,780</u>	<u>1,940,232</u>
Noncurrent assets					
Restricted assets					
Cash	710,524	-	-	710,524	671,095
Investments	275,753	-	-	275,753	267,143
Bond issue costs	26,595	-	-	26,595	24,967
Capital assets:					
Construction in progress	34,258	32,758	-	67,016	28,000
Land	66,872	37,400	-	104,272	104,272
Depreciable utility fixed assets	21,343,510	555,833	273,482	22,172,825	21,966,989
Less accumulated depreciation	<u>(7,095,117)</u>	<u>(447,009)</u>	<u>(123,732)</u>	<u>(7,665,858)</u>	<u>(6,952,491)</u>
Total noncurrent assets	<u>15,362,395</u>	<u>178,982</u>	<u>149,750</u>	<u>15,691,127</u>	<u>16,109,975</u>
Total assets	<u>\$ 15,705,690</u>	<u>\$ 1,435,439</u>	<u>\$ 187,778</u>	<u>\$ 17,328,907</u>	<u>\$ 18,050,207</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 32,149	\$ 30,112	\$ 13,749	\$ 76,010	\$ 88,961
Accounts payable-construction	-	-	-	-	113,987
Accrued liabilities	18,938	28,886	4,735	52,559	61,269
Customer deposits	73,428	81,441	-	154,869	154,959
Accrued interest payable	39,619	-	1,788	41,407	42,893
Current portion of long-term obligations	165,300	-	32,139	197,439	158,569
Total current liabilities	<u>329,434</u>	<u>140,439</u>	<u>52,411</u>	<u>522,284</u>	<u>620,638</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	5,686,500	-	85,755	5,772,255	5,969,695
Total noncurrent liabilities	<u>5,686,500</u>	<u>-</u>	<u>85,755</u>	<u>5,772,255</u>	<u>5,969,695</u>
Total liabilities	<u>6,015,934</u>	<u>140,439</u>	<u>138,166</u>	<u>6,294,539</u>	<u>6,590,333</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,497,723	178,982	31,856	8,708,561	8,914,234
Restricted for:					
Debt service	575,311	-	-	575,311	531,362
Depreciation	399,968	-	-	399,968	395,989
Unrestricted	<u>216,754</u>	<u>1,116,018</u>	<u>17,756</u>	<u>1,350,528</u>	<u>1,618,289</u>
Total net assets	<u>9,689,756</u>	<u>1,295,000</u>	<u>49,612</u>	<u>11,034,368</u>	<u>11,459,874</u>
Total liabilities and net assets	<u>\$ 15,705,690</u>	<u>\$ 1,435,439</u>	<u>\$ 187,778</u>	<u>\$ 17,328,907</u>	<u>\$ 18,050,207</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, 2011

	Business-type Activities			2011 Total	2010 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
Operating revenues					
Charges for services	\$ 1,111,679	\$ 1,091,751	\$ 303,186	\$ 2,506,616	\$ 2,445,768
Total operating revenues	<u>1,111,679</u>	<u>1,091,751</u>	<u>303,186</u>	<u>2,506,616</u>	<u>2,445,768</u>
Operating expenses					
Salaries and wages	236,970	170,899	105,074	512,943	508,423
Casual labor	31,638	30,842	1,805	64,285	41,444
Gas purchases	-	468,413	-	468,413	518,795
Payroll taxes	17,780	12,642	8,073	38,495	37,147
Retirement	35,523	28,501	18,599	82,623	78,388
Uniforms and laundry	7,117	6,992	6,729	20,838	19,766
Maintenance and repairs	396,075	87,231	22,108	505,414	337,291
Truck expense	-	-	4,212	4,212	9,625
Travel and lodging	-	-	-	-	3,139
Motor fuel	17,687	18,242	23,335	59,264	54,954
Office expense and postage	8,940	3,050	3,262	15,252	13,628
Legal and professional	24,739	7,636	7,636	40,011	42,584
Utilities	99,151	12,195	-	111,346	100,402
Insurance	64,298	54,194	33,350	151,842	146,597
Dump expense	-	-	92,493	92,493	87,193
Sludge hauling	35,118	-	-	35,118	13,831
Pretreatment expenses	13,898	-	-	13,898	9,270
Management fees	43,000	66,000	26,000	135,000	135,000
Other expense	14,230	4,918	1,277	20,425	28,763
Amortization	781	-	-	781	151
Depreciation	<u>685,581</u>	<u>9,916</u>	<u>21,619</u>	<u>717,116</u>	<u>537,003</u>
Total operating expenses	<u>1,732,526</u>	<u>981,671</u>	<u>375,572</u>	<u>3,089,769</u>	<u>2,723,394</u>
Operating income (loss)	(620,847)	110,080	(72,386)	(583,153)	(277,626)
Nonoperating revenues (expenses)					
Gain (loss) on sale of assets	-	-	-	-	18,296
Investment earnings	21,419	43,595	378	65,392	85,330
Interest expense	<u>(246,906)</u>	<u>-</u>	<u>(4,811)</u>	<u>(251,717)</u>	<u>(204,450)</u>
Income (loss) before capital contributions and transfers	<u>(846,334)</u>	<u>153,675</u>	<u>(76,819)</u>	<u>(769,478)</u>	<u>(378,450)</u>
Capital contributions					
Water and sewer tap fees	-	-	-	-	4,018
Grant revenues	312,689	10,536	15,596	338,821	1,398,865
Capital contributed to governmental fund	(5,431)	-	-	(5,431)	-
Transfers in (out)	<u>259,711</u>	<u>(332,082)</u>	<u>82,953</u>	<u>10,582</u>	<u>(326,198)</u>
Change in net assets	<u>(279,365)</u>	<u>(167,871)</u>	<u>21,730</u>	<u>(425,506)</u>	<u>698,235</u>
Total net assets-beginning	<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 NET ASSETS-ENDING	<u>\$ 9,689,756</u>	<u>\$ 1,295,000</u>	<u>\$ 49,612</u>	<u>\$11,034,368</u>	<u>\$11,459,874</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, 2011

	Business-type Activities			2011 Total	2010 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,108,729	\$ 1,078,043	\$ 302,953	\$ 2,489,725	\$ 2,445,392
Payments to suppliers	(701,285)	(659,538)	(193,093)	(1,553,916)	(1,404,581)
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	(325,796)	(239,998)	(141,262)	(707,056)	(655,268)
Net cash provided (used) by operating activities	<u>38,648</u>	<u>112,507</u>	<u>(57,402)</u>	<u>93,753</u>	<u>250,543</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Bond principal payment	(127,600)	-	(30,970)	(158,570)	(2,675,960)
Capital contributions from grant	426,676	10,536	15,596	452,808	1,486,227
Proceeds from bond/loan issuance	-	-	-	-	5,243,924
Proceeds from sale of assets	-	-	-	-	69,179
Purchases of capital assets	(317,412)	(45,711)	(4,896)	(368,019)	(4,435,937)
Interest paid on capital debt	(247,922)	-	(5,281)	(253,203)	(224,887)
Net cash (used) by capital and related financing activities	<u>(266,258)</u>	<u>(35,175)</u>	<u>(25,551)</u>	<u>(326,984)</u>	<u>(537,454)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Net operating transfers in (out)	259,711	(332,082)	82,953	10,582	(326,198)
Net cash provided (used) by noncapital financing activities	<u>259,711</u>	<u>(332,082)</u>	<u>82,953</u>	<u>10,582</u>	<u>(326,198)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	21,397	46,651	378	68,426	90,262
Net cash provided by investing activities	<u>21,397</u>	<u>46,651</u>	<u>378</u>	<u>68,426</u>	<u>90,262</u>
Net increase (decrease) in cash and cash equivalents	53,498	(208,099)	378	(154,223)	(522,847)
Cash and cash equivalents-beginning 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>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 1,206,819</u>	<u>\$ 1,200,472</u>	<u>\$ 11,919</u>	<u>\$ 2,419,210</u>	<u>\$ 2,573,433</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (620,847)	\$ 110,080	\$ (72,386)	\$ (583,153)	\$ (277,626)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	685,581	9,916	21,619	717,116	537,003
Change in assets and liabilities					
Receivables, net	(2,950)	(13,648)	(233)	(16,831)	(256)
Other assets	(1,628)	-	-	(1,628)	(20,722)
Accounts and other payables	(17,593)	3,333	1,309	(12,951)	2,162
Accrued expenses	(3,915)	2,826	(7,711)	(8,800)	9,982
Net cash provided (used) by operating activities	<u>\$ 38,648</u>	<u>\$ 112,507</u>	<u>\$ (57,402)</u>	<u>\$ 93,753</u>	<u>\$ 250,543</u>

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

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, 2011

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 - \$30,262, gas - \$59,829 and garbage - \$16,114.

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balances

As of June 30, 2011, the City implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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, 2011, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 18,300	\$ -	\$ 18,300
Restricted:			
Road surface repairs	-	78,514	78,514
Cemetery fund	-	70,360	70,360
Unassigned	<u>194,302</u>	<u>-</u>	<u>194,302</u>
Total fund balances	<u>\$ 212,602</u>	<u>\$ 148,874</u>	<u>\$ 361,476</u>

H. 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, 2011

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.

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.

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 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 \$2,719,798 and the bank balances totaled \$2,832,205. As of June 30, 2011 \$3,735,266 was held as collateral 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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 734,649	\$ 23,202	\$ -	\$ 757,851
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>734,649</u>	<u>23,202</u>	<u>-</u>	<u>757,851</u>
Capital assets that are depreciated:				
Land Improvements	\$ 558,112	\$ 51,205	\$ -	\$ 609,317
Buildings and Improvements	1,089,892	29,894	-	1,119,786
Vehicles	655,087	-	-	655,087
Equipment	<u>49,697</u>	<u>51,164</u>	<u>-</u>	<u>100,861</u>
Totals	<u>2,352,788</u>	<u>132,263</u>	<u>-</u>	<u>2,485,051</u>
Total Capital Assets	<u>3,087,437</u>	<u>155,465</u>	<u>-</u>	<u>3,242,902</u>
Less Accumulated Depreciation:				
Land Improvements	3,740	28,742	-	32,482
Buildings and Improvements	250,913	31,667	-	282,580
Vehicles	371,864	38,088	-	409,952
Equipment	<u>13,960</u>	<u>8,056</u>	<u>-</u>	<u>22,016</u>
Totals	<u>640,477</u>	<u>106,553</u>	<u>-</u>	<u>747,030</u>
Capital assets, net	<u>\$ 2,446,960</u>	<u>\$ 48,912</u>	<u>\$ -</u>	<u>\$ 2,495,872</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	<u>28,000</u>	<u>39,016</u>	<u>-</u>	<u>67,016</u>
Totals	<u>132,272</u>	<u>39,016</u>	<u>-</u>	<u>171,288</u>
Capital assets that are depreciated:				
Water Plant	\$ 12,434,931	\$ 181,475	\$ (9,179)	\$ 12,607,227
Sewer Plant	8,720,591	15,692	-	8,736,283
Gas Lines & Equipment	542,880	12,953	-	555,833
Garbage Equipment	<u>268,587</u>	<u>4,895</u>	<u>-</u>	<u>273,482</u>
Totals	<u>21,966,989</u>	<u>215,015</u>	<u>(9,179)</u>	<u>22,172,825</u>
Total Capital Assets	<u>22,099,261</u>	<u>254,031</u>	<u>(9,179)</u>	<u>22,344,113</u>
Less Accumulated Depreciation	<u>6,952,491</u>	<u>717,116</u>	<u>(3,749)</u>	<u>7,665,858</u>
Capital Assets, net	<u>\$ 15,146,770</u>	<u>\$ (463,085)</u>	<u>\$ (5,430)</u>	<u>\$ 14,678,255</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 57,668
Police	18,276
Fire	<u>30,609</u>
Total Depreciation Expense	<u>\$ 106,553</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
2012	\$ 32,139	\$ 4,112	\$ 36,251
2013	33,353	2,899	36,252
2014	34,611	1,639	36,250
2015	<u>17,791</u>	<u>333</u>	<u>18,124</u>
	<u>\$ 117,894</u>	<u>\$ 8,983</u>	<u>\$ 126,877</u>

The following is a summary of the revenue bonds outstanding of the city for the year ended June 30, 2011:

Revenue Bonds	<u>Outstanding June 30, 2011</u>	<u>Outstanding June 30, 2010</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%	\$ 420,000	\$ 493,000
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%	494,000	512,000
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%	764,300	780,900
Water and Sewer Fund - \$436,000		
2001 Series due in annual installments		
of \$4,500 to \$21,500 through 2041, Interest at 4.5%	393,500	399,500
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%	1,240,000	1,254,000
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	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>1,712,000</u>
	<u>\$ 5,851,800</u>	<u>\$ 5,979,400</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG - TERM DEBT (Continued)

BUSINESS - TYPE ACTIVITIES, continued

The following is a summary of the changes in long – term debt for the year ended June 30, 2011:

	July 1,	Additions	Retirements	June 30, 2011
W&S Bond 1976	\$ 493,000	\$ -	\$ (73,000)	\$ 420,000
W&S Bond 1988	512,000	-	(18,000)	494,000
W&S Bond 1996	780,900	-	(16,600)	764,300
W&S Bond 2001	399,500	-	(6,000)	393,500
W&S Bond 2007	1,254,000	-	(14,000)	1,240,000
W&S Bond 2008	1,712,000	-	-	1,712,000
W&S Bond 2009	828,000	-	-	828,000
Garbage Truck Lease	<u>148,864</u>	<u>-</u>	<u>(30,970)</u>	<u>117,894</u>
	<u>\$ 6,128,264</u>	<u>\$ -</u>	<u>\$ (158,570)</u>	<u>\$ 5,969,694</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2011, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 197,439	\$ 245,158	\$ 442,597
2013	205,853	237,048	442,901
2014	214,011	227,899	441,910
2015	207,391	218,383	425,774
2016	197,200	209,369	406,569
2017-2021	597,900	953,204	1,551,104
2022-2026	742,700	814,379	1,557,079
2027-2031	778,200	648,314	1,426,514
2032-2036	851,200	488,251	1,339,451
2037-2041	762,500	323,545	1,086,045
2042-2046	798,600	172,219	970,819
2047-2049	<u>416,700</u>	<u>28,070</u>	<u>444,770</u>
	<u>\$ 5,969,694</u>	<u>\$ 4,565,839</u>	<u>\$ 10,535,533</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, 2011 the amount reserved for bond principal and interest payments was \$575,311 and the amount restricted for the depreciation reserve is \$399,968.

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG - TERM DEBT (Continued)

GOVERNMENTAL ACTIVITIES

As of June 30, 2011 the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
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	24,433	2,427	26,860
2017	<u>25,618</u>	<u>1,242</u>	<u>26,860</u>
	<u>\$ 136,990</u>	<u>\$ 24,170</u>	<u>\$ 161,160</u>

The following is a summary of changes in general long – term debt for the year ended June 30, 2011:

	July 1,	Additions	Retirements	June 30, 2011
KY Fire Commission Loan	\$ 28,008	\$ -	\$ (6,694)	\$ 21,314
Osh Kosh Capital Lease	<u>156,271</u>	<u>-</u>	<u>(19,281)</u>	<u>136,990</u>
	<u>\$ 184,279</u>	<u>\$ -</u>	<u>\$ (25,975)</u>	<u>\$ 158,304</u>

The following is a summary of debt service requirements as of June 30, 2011:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	24,433	2,427	26,860
2017	<u>25,619</u>	<u>1,243</u>	<u>26,862</u>
TOTAL	<u>\$ 158,304</u>	<u>\$ 25,462</u>	<u>\$ 183,766</u>

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied in October 2010 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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

Contributions – For the year ended June 30, 2011, 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, 2011, participating employers contributed 16.93%, 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>
2011	\$ 159,906	100%
2010	\$ 149,108	100%
2009	\$ 118,357	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 primarily are the result of the adoption of GASB 54 and had no effect on net income. Fund balances remain the same; however, the breakdown between components of fund balance have been adjusted per GASB 54.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

10. RELATED PARTY TRANSACTIONS

During 2011 the City received \$50,000 from the Economic Development Authority of Liberty/Casey County. These funds were applied toward the purchase price of a property acquired by the City.

11. CONCENTRATIONS

The City has a concentration of revenue in the Water and Sewer Fund and the Gas Fund. One customer generated approximately 47% of the Water and Sewer Fund's service revenue and 50% of the accounts receivable at June 30, 2011. In addition, one industrial company generated approximately 29% of gas service charges and comprised 36% of the accounts receivable balance reported in the Gas Fund at June 30, 2011.

12. INSURANCE RECOVERY

During 2011, the City recovered \$25,499 from an insurance policy to repair damages sustained by one of the City's fire trucks during an accident involving the truck.

13. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through March 20, 2012, 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, 2011, 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, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes				
Property taxes & motor vehicle taxes	\$ 235,000	\$ 240,000	\$ 245,180	\$ 5,180
Payment in lieu of taxes	6,200	8,851	8,851	-
	<u>241,200</u>	<u>248,851</u>	<u>254,031</u>	<u>5,180</u>
Licenses, permits, billings				
City stickers	15,000	11,000	17,700	6,700
Franchise fees	65,000	67,000	67,195	195
Insurance premiums	194,000	179,000	179,757	757
Building permits	2,000	1,900	1,895	(5)
	<u>276,000</u>	<u>258,900</u>	<u>266,547</u>	<u>7,647</u>
Fines and forfeitures				
Parking Tickets/Arrest Fees	2,500	2,700	2,695	(5)
	<u>2,500</u>	<u>2,700</u>	<u>2,695</u>	<u>(5)</u>
Intergovernmental revenue				
Base court revenue	11,000	10,000	7,513	(2,487)
Police incentive pay	18,420	16,300	16,427	127
Local economic assistance	2,500	2,300	2,264	(36)
Liberty crossing	-	54,700	-	(54,700)
C.I.T.Y. grant	-	-	6,574	6,574
Police vehicles grant	2,500	-	-	-
Other grants	15,600	176,600	150,692	(25,908)
Fire equipment grant	8,250	8,250	8,250	-
	<u>58,270</u>	<u>268,150</u>	<u>191,720</u>	<u>(76,430)</u>
Charges for services				
Fishing permits	2,500	1,850	1,820	(30)
Accident reports	800	1,125	1,155	30
	<u>3,300</u>	<u>2,975</u>	<u>2,975</u>	<u>-</u>
Other revenues				
Interest income	5,000	5,000	5,195	195
Management fees	135,000	135,000	135,000	-
Other revenues	62,000	82,600	143,806	61,206
	<u>202,000</u>	<u>222,600</u>	<u>284,001</u>	<u>61,401</u>
Sale of asset				
	-	-	2,054	2,054
Total Revenue	<u>\$ 783,270</u>	<u>\$ 1,004,176</u>	<u>\$ 1,004,023</u>	<u>\$ (153)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government				
Salaries	\$ 97,160	\$ 91,400	\$ 86,869	\$ (4,531)
Payroll taxes and employee benefits	26,849	27,499	27,359	(140)
KY ASAP grant	20,000	11,000	10,272	(728)
Planning and zoning expenses	5,000	6,000	5,878	(122)
Professional services	9,000	9,000	8,471	(529)
Utilities	10,000	10,000	8,195	(1,805)
Office supplies	2,800	3,400	6,242	2,842
Insurance	18,000	18,000	17,180	(820)
Travel/lodging	2,500	2,500	-	(2,500)
Lake Liberty expenses	2,500	3,500	3,308	(192)
Postage	1,400	1,400	334	(1,066)
Dues and subscriptions	-	-	250	250
Parks and recreation	30,000	30,000	21,979	(8,021)
C.I.T.Y.	-	6,500	854	(5,646)
Fireworks	22,000	25,500	24,712	(788)
Flood expense	-	70,000	63,221	(6,779)
Other expenses	36,000	35,000	31,991	(3,009)
	<u>283,209</u>	<u>350,699</u>	<u>317,115</u>	<u>(33,584)</u>
Police				
Salaries	201,500	215,100	212,814	(2,286)
Payroll taxes and employee benefits	74,500	81,300	79,926	(1,374)
Motor fuels	18,000	18,000	16,044	(1,956)
Utilities	4,000	4,000	3,648	(352)
Equipment	11,000	15,000	16,924	1,924
Vehicle repairs	8,000	8,000	8,697	697
Uniforms	2,000	2,000	1,516	(484)
Insurance	17,000	17,000	15,373	(1,627)
Travel and lodging	500	500	-	(500)
Miscellaneous	3,000	4,500	4,235	(265)
	<u>339,500</u>	<u>365,400</u>	<u>359,177</u>	<u>(6,223)</u>
Fire				
Labor	48,000	49,500	49,130	(370)
Repairs and maintenance	2,000	33,650	33,542	(108)
Equipment	15,000	15,000	13,718	(1,282)
Utilities	8,400	8,400	8,809	409
Insurance	5,200	5,200	5,135	(65)
Motor fuel	4,000	4,000	3,908	(92)
Miscellaneous	3,000	17,000	17,649	649
	<u>85,600</u>	<u>132,750</u>	<u>131,891</u>	<u>(859)</u>

CITY OF LIBERTY, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 GENERAL FUND
 for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Streets and Public Works				
Street repairs	\$ 8,000	\$ 13,300	\$ 13,232	\$ (68)
Repairs and maintenance	2,000	2,000	592	(1,408)
Utilities	48,000	48,000	47,635	(365)
Supplies	6,000	2,800	1,223	(1,577)
Insurance	2,300	2,300	2,220	(80)
Motor fuel	3,500	1,500	997	(503)
Miscellaneous expenses	2,000	2,000	-	(2,000)
	<u>71,800</u>	<u>71,900</u>	<u>65,899</u>	<u>(6,001)</u>
Capital Outlay	<u>6,000</u>	<u>117,275</u>	<u>136,366</u>	<u>19,091</u>
Debt Service	<u>35,110</u>	<u>35,110</u>	<u>34,395</u>	<u>(715)</u>
Total Expenditures	<u>821,219</u>	<u>1,073,134</u>	<u>1,044,843</u>	<u>(28,291)</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>260,000</u>	<u>160,000</u>	<u>(10,582)</u>	<u>(170,582)</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 1,081,219</u>	<u>\$ 1,233,134</u>	<u>\$ 1,034,261</u>	<u>\$ (198,873)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
SPECIAL REVENUE FUNDS
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
CEMETERY				
Lot Sales/Donations	\$ 2,650	\$ 5,000	\$ 5,000	\$ -
Interest	<u>2,500</u>	<u>2,500</u>	<u>1,690</u>	<u>(810)</u>
TOTAL REVENUE	<u>\$ 5,150</u>	<u>\$ 7,500</u>	<u>\$ 6,690</u>	<u>\$ (810)</u>
Perpetual care trust fee	\$ 500	\$ 500	\$ 300	\$ (200)
Mowing	4,600	4,600	1,814	(2,786)
Capital outlay	<u>-</u>	<u>13,700</u>	<u>13,669</u>	<u>(31)</u>
TOTAL EXPENDITURES	<u>\$ 5,100</u>	<u>\$ 18,800</u>	<u>\$ 15,783</u>	<u>\$ (3,017)</u>
MUNICIPAL ROAD AID				
Intergovernmental revenues	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 38,931</u>	<u>\$ 4,931</u>
TOTAL REVENUE	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 38,931</u>	<u>\$ 4,931</u>
Streets	<u>\$ 68,000</u>	<u>\$ 23,000</u>	<u>\$ 22,684</u>	<u>\$ (316)</u>
TOTAL EXPENDITURES	<u>\$ 68,000</u>	<u>\$ 23,000</u>	<u>\$ 22,684</u>	<u>\$ (316)</u>

**CITY OF LIBERTY, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011**

	Cemetery Fund	Municipal Road Aid Fund	Total Governmental Funds
ASSETS			
Cash	\$ 23,815	\$ 39,004	\$ 62,819
Investments	51,331	-	51,331
Receivables, net	-	5,145	5,145
Due from other funds	-	34,365	34,365
 Total assets	 \$ 75,146	 \$ 78,514	 \$ 153,660
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	4,786	-	4,786
Total liabilities	4,786	-	4,786
 Fund balance	 70,360	 78,514	 148,874
 Total liabilities and fund balance:	 \$ 75,146	 \$ 78,514	 \$ 153,660

**CITY OF LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2011**

	Cemetery Fund	Municipal Road Aid Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 38,931	\$ 38,931
Other revenues	6,690	-	6,690
Total revenues	6,690	38,931	45,621
EXPENDITURES			
Current			
General government	2,114	-	2,114
Streets department	-	22,684	22,684
Capital outlay	13,669	-	13,669
Total expenditures	15,783	22,684	38,467
Excess (deficiency) of revenues over expenditures	(9,093)	16,247	7,154
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	(9,093)	16,247	7,154
Fund balances-beginning	79,453	62,267	141,720
Fund balances-ending	\$ 70,360	\$ 78,514	\$ 148,874

CITY OF LIBERTY, KENTUCKY
COMBINING STATEMENT OF OPERATING REVENUES AND EXPENSES
WATER AND SEWER PROPRIETARY FUND
for the year ended June 30, 2011

	WATER	SEWER	2011 TOTAL	2010 Totals
OPERATING REVENUES				
Charges for service	\$ 820,134	\$ 291,545	\$ 1,111,679	\$ 1,124,088
	<u>820,134</u>	<u>291,545</u>	<u>1,111,679</u>	<u>1,124,088</u>
OPERATING EXPENSES				
Salaries and wages	180,287	56,683	236,970	220,809
Casual labor	24,070	7,568	31,638	18,275
Payroll taxes	13,527	4,253	17,780	16,103
Retirement	27,026	8,497	35,523	31,257
Uniforms and laundry	5,415	1,702	7,117	6,672
Maintenance and repairs	332,258	63,817	396,075	247,566
Travel and lodging	-	-	-	1,577
Motor fuel	13,456	4,231	17,687	17,643
Office expense and postage	6,802	2,138	8,940	5,843
Legal and professional	12,286	12,453	24,739	26,448
Utilities	50,326	48,825	99,151	90,622
Insurance	48,918	15,380	64,298	61,607
Sludge hauling	27,908	7,210	35,118	13,831
Pretreatment expenses	-	13,898	13,898	9,270
Management fees	32,714	10,286	43,000	43,000
Other expense	10,826	3,404	14,230	12,279
Amortization	781	-	781	151
Depreciation	<u>313,374</u>	<u>372,207</u>	<u>685,581</u>	<u>503,002</u>
	<u>1,099,974</u>	<u>632,552</u>	<u>1,732,526</u>	<u>1,325,955</u>
OPERATING INCOME	<u>\$ (279,840)</u>	<u>\$ (341,007)</u>	<u>\$ (620,847)</u>	<u>\$ (201,867)</u>

**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 the City of Liberty, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Liberty, Kentucky's basic financial statements and have issued our report thereon dated March 20, 2012. 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 misstatements, 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
March 20, 2012