

CITY OF LIBERTY
Liberty, Kentucky

FINANCIAL STATEMENTS
June 30, 2012

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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, 2012. 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 assets increased in the governmental activities and decreased in the business-type activities. The net assets of the governmental activities increased by \$4,293, and the net assets of the business-type activities decreased to \$10,857,403, which was a 1.6 percent decrease from the previous year.
- In the City's governmental activities, revenues increased by \$178,453, or 20 percent, and expenses decreased by 1.3 percent to \$1,000,456. In the business-type activities, revenues decreased to \$2,777,961 which is a decrease of 4.6 percent, while expenses decreased by 9.6 percent to \$3,021,487.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

Condensed Statement of Net Assets

	Governmental		Business-type		Total Primary	
	Activities		Activities		Government	
	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>
Current and Other Assets	\$ 442,028	\$ 388,563	\$ 2,830,990	\$ 2,650,652	\$ 3,273,018	\$ 3,039,215
Capital Assets	<u>2,418,249</u>	<u>2,495,872</u>	<u>14,510,332</u>	<u>14,678,255</u>	<u>16,928,581</u>	<u>17,174,127</u>
Total Assets	<u>2,860,277</u>	<u>2,884,435</u>	<u>17,341,322</u>	<u>17,328,907</u>	<u>20,201,599</u>	<u>20,213,342</u>
Long-Term Debt Outstanding	102,894	131,193	5,566,403	5,772,255	5,669,297	5,903,448
Current Liabilities	<u>54,046</u>	<u>54,198</u>	<u>917,516</u>	<u>522,284</u>	<u>971,562</u>	<u>576,482</u>
Total Liabilities	<u>156,940</u>	<u>185,391</u>	<u>6,483,919</u>	<u>6,294,539</u>	<u>6,640,859</u>	<u>6,479,930</u>
Net Assets:						
Invested in Capital Assets, net of related debt	2,287,056	2,337,568	8,738,076	8,708,561	11,025,132	11,046,129
Restricted	200,338	148,874	989,180	975,279	1,189,518	1,124,153
Unrestricted	<u>215,943</u>	<u>212,602</u>	<u>1,130,147</u>	<u>1,350,528</u>	<u>1,346,090</u>	<u>1,563,130</u>
Total Net Assets	<u>\$ 2,703,337</u>	<u>\$ 2,699,044</u>	<u>\$ 10,857,403</u>	<u>\$ 11,034,368</u>	<u>\$ 13,560,740</u>	<u>\$ 13,733,412</u>

The net assets of the City's governmental activities increased from \$2,699,044 in 2011 to \$2,703,337 in 2012. The net assets of the business-type activities decreased from \$11,034,368 to \$10,857,403 in 2012, which is a 1.6 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 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 2,603	\$ 2,975	\$ 2,255,443	\$ 2,506,616	\$ 2,258,046	\$ 2,509,591
Operating Grants & Contributions	258,412	74,070	-	-	258,412	74,070
Capital Grants & Contributions	8,250	8,250	482,454	338,821	490,704	347,071
<u>General Revenue</u>					-	-
Taxes	251,972	254,031	-	-	251,972	254,031
License fees	339,278	246,952	-	-	339,278	246,952
Permits	30,256	19,595	-	-	30,256	19,595
Other Grants and Contributions	2,414	2,264	-	-	2,414	2,264
Investment Earnings	11,523	6,885	40,064	65,392	51,587	72,277
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	31,193	142,426	-	-	31,193	142,426
Total Revenue	<u>1,070,901</u>	<u>892,448</u>	<u>2,777,961</u>	<u>2,910,829</u>	<u>3,848,862</u>	<u>3,803,277</u>
Program Expenses						
General Government	468,520	376,898	-	-	468,520	376,898
Public Safety - Police	350,139	377,453	-	-	350,139	377,453
Public Safety - Fire	107,463	162,500	-	-	107,463	162,500
Streets Department	67,050	88,583	-	-	67,050	88,583
Interest on Long-term Debt	7,284	8,421	-	-	7,284	8,421
Utility	-	-	3,021,487	3,341,486	3,021,487	3,341,486
Total Program Expenses	<u>1,000,456</u>	<u>1,013,855</u>	<u>3,021,487</u>	<u>3,341,486</u>	<u>4,021,943</u>	<u>4,355,341</u>
Other Changes						
Donation of asset	-	-	-	-	-	-
Transfers	(66,561)	(10,582)	66,561	10,582	-	-
Contributed capital to governmental fund	-	5,431	-	(5,431)	-	-
Gain (loss) on sale of assets	409	2,054	-	-	409	2,054
Total Other Changes	<u>(66,152)</u>	<u>(3,097)</u>	<u>66,561</u>	<u>5,151</u>	<u>409</u>	<u>2,054</u>
Change In Net Assets	<u>\$ 4,293</u>	<u>\$ (124,504)</u>	<u>\$ (176,965)</u>	<u>\$ (425,506)</u>	<u>\$ (172,672)</u>	<u>\$ (550,010)</u>

The City's total revenue increased by 1.2 percent and the total cost of all programs reflected a decrease of 7.7 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 2012</u>	<u>FY2011</u>	<u>Change</u>
Taxes	\$ 251,972	\$ 254,031	\$ (2,059)
Licenses and permits	369,534	266,547	102,987
Fines and Forfeits	2,160	2,695	(535)
Intergovernmental	269,076	230,651	38,425
Charges for Services	2,603	2,975	(372)
Other Revenues	<u>175,556</u>	<u>290,691</u>	<u>(115,135)</u>
Total Revenues	<u>1,070,901</u>	<u>1,047,590</u>	<u>23,311</u>
General Government	\$ 407,088	\$ 319,229	\$ 87,859
Public Safety	406,817	491,068	(84,251)
Streets Department	67,050	88,583	(21,533)
Capital Outlay	34,594	150,035	(115,441)
Debt Service	<u>34,395</u>	<u>34,395</u>	<u>-</u>
Total Expenditures	<u>949,944</u>	<u>1,083,310</u>	<u>(133,366)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 120,957</u>	<u>\$ (35,720)</u>	<u>\$ 156,677</u>

Revenues for the City's governmental activities increased by 2.2 percent, while total expenditures decreased by 12.3 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) increased by \$156,667. The City's major sources of revenue in the governmental activities are other revenue (16.4 percent), licenses and permits (34.5 percent), taxes (23.5 percent) and intergovernmental (25.1 percent). These revenue sources increased 2.3 percent in 2012. The major change in expenditures in the governmental activities was a decrease in capital outlay of \$115,441 which is discussed on page 7.

BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, revenues for the City decreased to \$2,777,961, or 4.6 percent, while total expenses decreased 9.6 percent. The decrease of revenues combined with the decrease of expenses and increase in other changes increased the change in net assets to (\$176,965). The City's major source of revenue in the business-type activities is charges for services, which decreased to \$2,255,443. This revenue source makes up 81.2 percent of total revenues. The capital grants and contributions included grants for the water and sewer system expansion as discussed on page 7.

BUDGET HIGHLIGHTS

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

Table A-4

Condensed Governmental Activities - Revenues and Other Financing Sources

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 248,000	\$ 251,972	\$ 3,972
Licenses and permits	333,900	369,534	35,634
Fines and Forfeitures	2,700	2,160	(540)
Intergovernmental	268,156	269,076	920
Charges for Services	2,325	2,603	278
Other Revenues	205,000	175,556	(29,444)
Sale of Asset	-	409	409
Total Revenues and Other Financing Sources	<u>\$ 1,060,081</u>	<u>\$1,071,310</u>	<u>\$ 11,229</u>

Table A-5

Condensed Governmental Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 453,446	\$ 407,088	\$ (46,358)
Public Safety	492,418	406,817	(85,601)
Streets Department	88,086	67,050	(21,036)
Transfers (in) out	(160,000)	66,561	226,561
Debt Service	35,110	34,395	(715)
Capital Outlay	<u>8,000</u>	<u>34,594</u>	<u>26,594</u>
Total Expenditures	<u>\$ 917,060</u>	<u>\$1,016,505</u>	<u>\$ 99,445</u>

The City budgeted for a total of \$1,060,081 in revenues and other financing sources for 2012, but ended up having revenues of \$1,071,310, which put the City over the revenue budget by \$11,229. A total of \$917,060 was budgeted for expenses, and actual expenditures totaled \$1,016,505 at the end of 2012. The City was over budget on the expenses by \$99,445, as detailed above.

CAPITAL ASSETS

As discussed in Table A-6, the City has a total of \$26,180,253 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 2.3 percent increase from last year's total investment of \$25,587,015.

The major capital additions in the governmental activities were fire department equipment for \$16,135, street signs for \$7,650 and a barn for \$6,656. The business-type activities major capital additions were a gas line for \$99,108 and a sewer pump for \$9,920.

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Land & Improvements	\$1,385,627	\$1,367,168	\$ -	\$ -	\$ 1,385,627	\$ 1,367,168
Construction in Progress	-	-	507,379	67,016	507,379	67,016
Buildings & Improvements	1,119,786	1,119,786	-	-	1,119,786	1,119,786
Vehicles & Equipment	772,083	755,948	-	-	772,083	755,948
Water & Sewer System	-	-	22,395,378	22,277,097	22,395,378	22,277,097
Total Capital Assets	<u>\$3,277,496</u>	<u>\$3,242,902</u>	<u>\$ 22,902,757</u>	<u>\$22,344,113</u>	<u>\$ 26,180,253</u>	<u>\$ 25,587,015</u>

At June 30, 2012, the City had a water tank project in process. The total cost as of that date was \$489,379. The total cost of the project is expected to be \$1,000,000 with funding to be provided by \$950,000 in Community Development Block grants and \$50,000 in matching from the City.

DEBT

This year the City has \$5,903,449 in debt, a 3.7 percent decrease from last year's total of \$6,127,998. 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 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Note Payable	\$ 131,193	\$ 158,304	\$ 85,756	\$ 117,894	\$ 216,949	\$ 276,198
Revenue Bond Payable	-	-	5,686,500	5,851,800	5,686,500	5,851,800
Total Debt Outstanding	<u>\$ 131,193</u>	<u>\$ 158,304</u>	<u>\$ 5,772,256</u>	<u>\$ 5,969,694</u>	<u>\$ 5,903,449</u>	<u>\$ 6,127,998</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2013 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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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 the City of Liberty, Kentucky, as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2013, 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.

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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 33 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the 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
February 23, 2013

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			2011 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash	\$ 55,677	\$ 127,369	\$ 183,046	\$ 148,444
Investments	247,663	1,077,588	1,325,251	1,585,077
Receivables (net)	140,569	189,761	330,330	260,733
Interest receivable	251	5,073	5,324	11,606
Other assets	17,174	-	17,174	18,300
Grant receivable	-	396,899	396,899	2,183
Internal balances	(19,306)	19,306	-	-
Total current assets	<u>442,028</u>	<u>1,815,996</u>	<u>2,258,024</u>	<u>2,026,343</u>
Noncurrent assets				
Restricted assets				
Cash	-	707,755	707,755	710,524
Investments	-	281,425	281,425	275,753
Bond issue costs	-	25,814	25,814	26,595
Capital assets				
Construction in progress	-	507,379	507,379	67,016
Land and improvements	757,851	104,272	862,123	862,123
Utility systems, net	-	13,898,681	13,898,681	14,506,967
Depreciable buildings, property, and equipment, net	1,660,398	-	1,660,398	1,738,021
Total noncurrent assets	<u>2,418,249</u>	<u>15,525,326</u>	<u>17,943,575</u>	<u>18,186,999</u>
Total assets	<u>\$ 2,860,277</u>	<u>\$ 17,341,322</u>	<u>\$ 20,201,599</u>	<u>\$ 20,213,342</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 12,356	\$ 85,078	\$ 97,434	\$ 87,792
Accounts payable-construction	-	379,117	379,117	-
Accrued liabilities	13,391	52,449	65,840	67,864
Internal balances	-	-	-	-
Customer deposits	-	154,689	154,689	154,869
Accrued interest payable	-	40,330	40,330	41,407
Current portion of long-term obligations	28,299	205,853	234,152	224,550
Total current liabilities	<u>54,046</u>	<u>917,516</u>	<u>971,562</u>	<u>576,482</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	102,894	5,566,403	5,669,297	5,903,448
Total liabilities	<u>156,940</u>	<u>6,483,919</u>	<u>6,640,859</u>	<u>6,479,930</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,287,056	8,738,076	11,025,132	11,046,129
Restricted for other purposes	200,338	989,180	1,189,518	1,124,153
Unrestricted	215,943	1,130,147	1,346,090	1,563,130
Total net assets	<u>2,703,337</u>	<u>10,857,403</u>	<u>13,560,740</u>	<u>13,733,412</u>
Total liabilities and net assets	<u>\$ 2,860,277</u>	<u>\$ 17,341,322</u>	<u>\$ 20,201,599</u>	<u>\$ 20,213,342</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government			2011 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 468,520	\$ 1,510	\$ 198,743	\$ -	\$ (268,267)	\$ -	\$ (268,267)	\$ (356,366)
Public safety-Police	350,139	1,093	17,382	-	(331,664)	-	(331,664)	(359,871)
Public safety-Fire	107,463	-	-	8,250	(99,213)	-	(99,213)	(154,250)
Street department	67,050	-	42,287	-	(24,763)	-	(24,763)	(49,652)
Interest on long-term debt	7,284	-	-	-	(7,284)	-	(7,284)	(8,421)
Total governmental activities	<u>1,000,456</u>	<u>2,603</u>	<u>258,412</u>	<u>8,250</u>	<u>(731,191)</u>	<u>-</u>	<u>(731,191)</u>	<u>(928,560)</u>
Business type activities								
Utility	<u>3,021,487</u>	<u>2,255,443</u>	<u>-</u>	<u>482,454</u>	<u>-</u>	<u>(283,590)</u>	<u>(283,590)</u>	<u>(496,049)</u>
Total business-type activities	<u>3,021,487</u>	<u>2,255,443</u>	<u>-</u>	<u>482,454</u>	<u>-</u>	<u>(283,590)</u>	<u>(283,590)</u>	<u>(496,049)</u>
Total primary government	<u>\$ 4,021,943</u>	<u>\$ 2,258,046</u>	<u>\$ 258,412</u>	<u>\$ 490,704</u>	<u>(731,191)</u>	<u>(283,590)</u>	<u>(1,014,781)</u>	<u>(1,424,609)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					251,972	-	251,972	254,031
License fee								
Franchise					66,737	-	66,737	67,195
Insurance premiums					272,541	-	272,541	179,757
Permits								
Building					1,650	-	1,650	1,895
City Stickers					28,606	-	28,606	17,700
Fines and forfeitures					2,160	-	2,160	2,695
Grants and contributions								
not restricted to specific programs					2,414	-	2,414	2,264
Investment earnings					11,523	40,064	51,587	72,277
Management fees					135,000	-	135,000	135,000
Miscellaneous					29,033	-	29,033	139,731
Total general revenues					<u>801,636</u>	<u>40,064</u>	<u>841,700</u>	<u>872,545</u>
Gain (loss) on sale of assets					409	-	409	2,054
Transfers					(66,561)	66,561	-	-
Total general revenues and transfers					<u>735,484</u>	<u>106,625</u>	<u>842,109</u>	<u>874,599</u>
Change in Net Assets					<u>4,293</u>	<u>(176,965)</u>	<u>(172,672)</u>	<u>(550,010)</u>
Net assets-beginning					<u>2,699,044</u>	<u>11,034,368</u>	<u>13,733,412</u>	<u>14,283,422</u>
NET ASSETS-ENDING					<u>\$ 2,703,337</u>	<u>\$ 10,857,403</u>	<u>\$ 13,560,740</u>	<u>\$ 13,733,412</u>

The accompanying notes are an integral
part of the financial statements

CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2011 Totals</u>
ASSETS				
Cash	\$ -	\$ 55,677	\$ 55,677	\$ 62,819
Investments	190,691	56,972	247,663	237,769
Receivables (net)	133,794	6,775	140,569	88,672
Interest receivable	251	-	251	309
Other assets	17,174	-	17,174	18,300
Due from other funds	-	85,700	85,700	34,365
Total assets	<u>\$ 341,910</u>	<u>\$ 205,124</u>	<u>\$ 547,034</u>	<u>\$ 442,234</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 12,356	\$ -	\$ 12,356	\$ 11,782
Accrued liabilities	13,391	-	13,391	15,305
Due to other funds	<u>100,220</u>	<u>4,786</u>	<u>105,006</u>	<u>53,671</u>
Total liabilities	<u>125,967</u>	<u>4,786</u>	<u>130,753</u>	<u>80,758</u>
Fund balances:				
Nonspendable	17,174	-	17,174	18,300
Restricted	-	200,338	200,338	148,874
Committed	250,000	-	250,000	-
Unassigned	<u>(51,231)</u>	<u>-</u>	<u>(51,231)</u>	<u>194,302</u>
Total fund balances	<u>215,943</u>	<u>200,338</u>	<u>416,281</u>	<u>361,476</u>
Total liabilities and fund balances	<u>\$ 341,910</u>	<u>\$ 205,124</u>	<u>\$ 547,034</u>	<u>\$ 442,234</u>

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

Fund balances represented above	\$ 416,281	\$ 361,476
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,418,249	2,495,872
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(131,193)</u>	<u>(158,304)</u>
Net assets of governmental activities	<u>\$ 2,703,337</u>	<u>\$ 2,699,044</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, 2012

	General	Other Governmental Funds	Total Governmental Funds	2011 Totals
REVENUES				
Taxes	\$ 251,972	\$ -	\$ 251,972	\$ 254,031
Licenses and permits	369,534	-	369,534	266,547
Fines and forfeits	2,160	-	2,160	2,695
Intergovernmental	226,789	42,287	269,076	230,651
Charges for service	2,603	-	2,603	2,975
Other revenues	164,219	11,337	175,556	290,691
Total revenues	1,017,277	53,624	1,070,901	1,047,590
EXPENDITURES				
Current:				
General government	404,928	2,160	407,088	319,229
Public safety-Police	331,863	-	331,863	359,177
Public safety-Fire	74,954	-	74,954	131,891
Streets department	67,050	-	67,050	88,583
Capital outlay	34,594	-	34,594	150,035
Debt service	34,395	-	34,395	34,395
Total expenditures	947,784	2,160	949,944	1,083,310
Excess (deficiency) of revenues over expenditures	69,493	51,464	120,957	(35,720)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	409	-	409	2,054
Transfers in (out)	(66,561)	-	(66,561)	(10,582)
Total other financing sources and uses	(66,152)	-	(66,152)	(8,528)
Net change in fund balances	3,341	51,464	54,805	(44,248)
Fund balances-beginning	212,602	148,874	361,476	405,724
Fund balances-ending	\$ 215,943	\$ 200,338	\$ 416,281	\$ 361,476
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 54,805	\$ (44,248)
less: long-term receivable received in current year			-	(155,142)
add: capital outlay expenditures capitalized			34,594	150,035
add: capital asset contributed by proprietary fund			-	5,431
add: debt service expenditures			34,395	34,395
less: depreciation on governmental activities assets			(112,217)	(106,554)
less: interest on long term debt			(7,284)	(8,421)
Change in net assets Governmental Activities			\$ 4,293	\$ (124,504)

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

CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities			2012 Total	2011 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
ASSETS					
Current assets					
Cash	\$ 83,967	\$ 18,283	\$ 25,119	\$ 127,369	\$ 85,625
Investments	155,008	910,424	12,156	1,077,588	1,347,308
Receivables (net)	115,296	43,987	30,478	189,761	172,061
Interest receivable	532	4,541	-	5,073	11,297
Grant receivable	396,899	-	-	396,899	2,183
Due from other funds	16,913	1,393	1,000	19,306	19,306
Total current assets	<u>768,615</u>	<u>978,628</u>	<u>68,753</u>	<u>1,815,996</u>	<u>1,637,780</u>
Noncurrent assets					
Restricted assets					
Cash	707,755	-	-	707,755	710,524
Investments	281,425	-	-	281,425	275,753
Bond issue costs	25,814	-	-	25,814	26,595
Capital assets:					
Construction in progress	507,379	-	-	507,379	67,016
Land	66,872	37,400	-	104,272	104,272
Depreciable utility fixed assets	21,362,683	654,941	273,482	22,291,106	22,172,825
Less accumulated depreciation	(7,791,541)	(459,752)	(141,132)	(8,392,425)	(7,665,858)
Total noncurrent assets	<u>15,160,387</u>	<u>232,589</u>	<u>132,350</u>	<u>15,525,326</u>	<u>15,691,127</u>
Total assets	<u>\$ 15,929,002</u>	<u>\$ 1,211,217</u>	<u>\$ 201,103</u>	<u>\$ 17,341,322</u>	<u>\$ 17,328,907</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 49,088	\$ 24,674	\$ 11,316	\$ 85,078	\$ 76,010
Accounts payable-construction	379,117	-	-	379,117	-
Accrued liabilities	20,758	29,450	2,241	52,449	52,559
Customer deposits	73,308	81,381	-	154,689	154,869
Accrued interest payable	39,029	-	1,301	40,330	41,407
Current portion of long-term obligations	172,500	-	33,353	205,853	197,439
Total current liabilities	<u>733,800</u>	<u>135,505</u>	<u>48,211</u>	<u>917,516</u>	<u>522,284</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	5,514,000	-	52,403	5,566,403	5,772,255
Total noncurrent liabilities	<u>5,514,000</u>	<u>-</u>	<u>52,403</u>	<u>5,566,403</u>	<u>5,772,255</u>
Total liabilities	<u>6,247,800</u>	<u>135,505</u>	<u>100,614</u>	<u>6,483,919</u>	<u>6,294,539</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,458,893	232,589	46,594	8,738,076	8,708,561
Restricted for:					
Debt service	585,183	-	-	585,183	575,311
Depreciation	403,997	-	-	403,997	399,968
Unrestricted	233,129	843,123	53,895	1,130,147	1,350,528
Total net assets	<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 liabilities and net assets	<u>\$ 15,929,002</u>	<u>\$ 1,211,217</u>	<u>\$ 201,103</u>	<u>\$ 17,341,322</u>	<u>\$ 17,328,907</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, 2012

	Business-type Activities			2012 Total	2011 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
Operating revenues					
Charges for services	\$ 1,095,170	\$ 837,423	\$ 322,850	\$ 2,255,443	\$ 2,506,616
Total operating revenues	<u>1,095,170</u>	<u>837,423</u>	<u>322,850</u>	<u>2,255,443</u>	<u>2,506,616</u>
Operating expenses					
Salaries and wages	222,255	157,147	78,013	457,415	512,943
Casual labor	15,448	7,229	-	22,677	64,285
Gas purchases	-	365,749	-	365,749	468,413
Payroll taxes	15,948	11,177	5,762	32,887	38,495
Retirement	35,994	30,980	15,085	82,059	82,623
Uniforms and laundry	7,513	6,217	4,890	18,620	20,838
Maintenance and repairs	324,092	72,547	3,157	399,796	505,414
Truck expense	-	-	12,109	12,109	4,212
Motor fuel	19,703	14,736	23,917	58,356	59,264
Office expense and postage	6,101	2,679	2,421	11,201	15,252
Legal and professional	32,123	5,433	5,533	43,089	40,011
Utilities	98,760	9,519	234	108,513	111,346
Insurance	67,306	50,063	35,162	152,531	151,842
Dump expense	-	-	92,612	92,612	92,493
Sludge hauling	8,718	-	-	8,718	35,118
Pretreatment expenses	9,869	-	-	9,869	13,898
Management fees	43,000	66,000	26,000	135,000	135,000
Other expense	31,644	5,824	711	38,179	20,425
Amortization	781	-	-	781	781
Depreciation	<u>696,424</u>	<u>12,743</u>	<u>17,400</u>	<u>726,567</u>	<u>717,116</u>
Total operating expenses	<u>1,635,679</u>	<u>818,043</u>	<u>323,006</u>	<u>2,776,728</u>	<u>3,089,769</u>
Operating income (loss)	(540,509)	19,380	(156)	(521,285)	(583,153)
Nonoperating revenues (expenses)					
Investment earnings	16,789	23,038	237	40,064	65,392
Interest expense	<u>(241,135)</u>	<u>-</u>	<u>(3,624)</u>	<u>(244,759)</u>	<u>(251,717)</u>
Income (loss) before capital contributions and transfers	<u>(764,855)</u>	<u>42,418</u>	<u>(3,543)</u>	<u>(725,980)</u>	<u>(769,478)</u>
Capital contributions					
Water and sewer tap fees	550	-	-	550	-
Grant revenues	481,904	-	-	481,904	338,821
Capital contributed to governmental fund	-	-	-	-	(5,431)
Transfers in (out)	<u>273,847</u>	<u>(261,706)</u>	<u>54,420</u>	<u>66,561</u>	<u>10,582</u>
Change in net assets	<u>(8,554)</u>	<u>(219,288)</u>	<u>50,877</u>	<u>(176,965)</u>	<u>(425,506)</u>
Total net assets-beginning	<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 NET ASSETS-ENDING	<u>\$ 9,681,202</u>	<u>\$ 1,075,712</u>	<u>\$ 100,489</u>	<u>\$ 10,857,403</u>	<u>\$ 11,034,368</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, 2012

	Business-type Activities				
	Water & Sewer Fund	Gas Fund	Garbage Fund	2012 Total	2011 Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,082,540	\$ 837,662	\$ 317,481	\$ 2,237,683	\$ 2,489,725
Payments to suppliers	(589,010)	(538,205)	(183,179)	(1,310,394)	(1,553,916)
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	(287,825)	(205,969)	(101,354)	(595,148)	(707,056)
Net cash provided (used) by operating activities	<u>162,705</u>	<u>27,488</u>	<u>6,948</u>	<u>197,141</u>	<u>93,753</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Bond principal payment	(165,300)	-	(32,138)	(197,438)	(158,570)
Capital contributions from grant	87,738	-	-	87,738	452,808
Purchases of capital assets	(113,177)	(66,350)	-	(179,527)	(368,019)
Interest paid on capital debt	(241,725)	-	(4,111)	(245,836)	(253,203)
Net cash (used) by capital and related financing activities	<u>(432,464)</u>	<u>(66,350)</u>	<u>(36,249)</u>	<u>(535,063)</u>	<u>(326,984)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Net operating transfers in (out)	<u>273,847</u>	<u>(261,706)</u>	<u>54,420</u>	<u>66,561</u>	<u>10,582</u>
Net cash provided (used) by noncapital financing activities	<u>273,847</u>	<u>(261,706)</u>	<u>54,420</u>	<u>66,561</u>	<u>10,582</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>17,248</u>	<u>28,803</u>	<u>237</u>	<u>46,288</u>	<u>68,426</u>
Net cash provided by investing activities	<u>17,248</u>	<u>28,803</u>	<u>237</u>	<u>46,288</u>	<u>68,426</u>
Net increase (decrease) in cash and cash equivalents	21,336	(271,765)	25,356	(225,073)	(154,223)
Cash and cash equivalents-beginning 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>
CASH AND CASH EQUIVALENTS-END 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>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (540,509)	\$ 19,380	\$ (156)	\$ (521,285)	\$ (583,153)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	696,424	12,743	17,400	726,567	717,116
Change in assets and liabilities					
Receivables, net	(12,630)	299	(5,369)	(17,700)	(16,831)
Other assets	781	-	-	781	(1,628)
Accounts and other payables	16,939	(5,438)	(2,433)	9,068	(12,951)
Accrued expenses	1,700	504	(2,494)	(290)	(8,800)
Net cash provided (used) by operating activities	<u>\$ 162,705</u>	<u>\$ 27,488</u>	<u>\$ 6,948</u>	<u>\$ 197,141</u>	<u>\$ 93,753</u>

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

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Receivables

General fund receivables are net of an allowance for uncollectible property taxes of \$2,792.

Proprietary receivables from customers are net of allowance for uncollectible as follows: water and sewer - \$32,760, gas - \$54,226 and garbage - \$18,085.

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

G. Fund Balances

As of June 30, 2012, 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, 2012, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 17,174	\$ -	\$ 17,174
Restricted:			
Road surface repairs	-	120,801	120,801
Cemetery fund	-	79,537	79,537
Committed	250,000	-	250,000
Unassigned	(51,231)	-	(51,231)
Total fund balances	<u>\$ 215,943</u>	<u>\$ 200,338</u>	<u>\$ 416,281</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balances, continued

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. 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

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.

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

2. CASH AND INVESTMENTS (Continued)

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.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012 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 \$2,492,528 and the bank balances totaled \$2,530,741. As of June 30, 2012 \$3,336,809 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, 2012, 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	\$ 1,420,598	\$ 251,487	\$ 1,169,111	\$ -	\$ -
Money market funds	2,317	2,317	-	-	-
Mutual funds	64,123	64,123	-	-	-
Municipal bonds	109,172	-	63,181	10,940	35,051
Corporate bonds	10,466	-	10,466	-	-
	<u>\$ 1,606,676</u>	<u>\$ 317,927</u>	<u>\$ 1,242,758</u>	<u>\$ 10,940</u>	<u>\$ 35,051</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3. CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 757,851	\$ -	\$ -	\$ 757,851
Capital assets that are depreciated:				
Land Improvements	\$ 609,317	\$ 18,459	\$ -	\$ 627,776
Buildings and Improvements	1,119,786	-	-	1,119,786
Vehicles	655,087	-	-	655,087
Equipment	100,861	16,135	-	116,996
Totals	<u>2,485,051</u>	<u>34,594</u>	<u>-</u>	<u>2,519,645</u>
Total Capital Assets	<u>3,242,902</u>	<u>34,594</u>	<u>-</u>	<u>3,277,496</u>
Less Accumulated Depreciation:				
Land Improvements	32,482	31,089	-	63,571
Buildings and Improvements	282,580	32,415	-	314,995
Vehicles	409,952	38,088	-	448,040
Equipment	22,016	10,625	-	32,641
Totals	<u>747,030</u>	<u>112,217</u>	<u>-</u>	<u>859,247</u>
Capital assets, net	<u>\$ 2,495,872</u>	<u>\$ (77,623)</u>	<u>\$ -</u>	<u>\$ 2,418,249</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	67,016	539,471	(99,108)	507,379
Totals	<u>171,288</u>	<u>539,471</u>	<u>(99,108)</u>	<u>611,651</u>
Capital assets that are depreciated:				
Water Plant	\$ 12,607,227	\$ 6,953	\$ -	\$ 12,614,180
Sewer Plant	8,736,283	12,220	-	8,748,503
Gas Lines & Equipment	555,833	99,108	-	654,941
Garbage Equipment	273,482	-	-	273,482
Totals	<u>22,172,825</u>	<u>118,281</u>	<u>-</u>	<u>22,291,106</u>
Total Capital Assets	<u>22,344,113</u>	<u>657,752</u>	<u>(99,108)</u>	<u>22,902,757</u>
Less Accumulated Depreciation	<u>7,665,858</u>	<u>726,567</u>	<u>-</u>	<u>8,392,425</u>
Capital Assets, net	<u>\$ 14,678,255</u>	<u>\$ (68,815)</u>	<u>\$ (99,108)</u>	<u>\$ 14,510,332</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 61,432
Police	18,276
Fire	<u>32,509</u>
Total Depreciation Expense	<u>\$ 112,217</u>

4. 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 and the net book value at June 30, 2012 was \$117,479.

The future capital lease payments are summarized as follows:

	Principal	Interest	Total
2013	\$ 33,353	\$ 2,899	\$ 36,252
2014	34,611	1,639	36,250
2015	<u>17,792</u>	<u>332</u>	<u>18,124</u>
	<u>\$ 85,756</u>	<u>\$ 4,870</u>	<u>\$ 90,626</u>

The following is a summary of the revenue bonds outstanding of the city for the year ended June 30, 2012 and 2011:

Revenue Bonds	<u>Outstanding June 30, 2012</u>	<u>Outstanding June 30, 2011</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%	\$ 344,000	\$ 420,000
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	494,000
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	764,300
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	393,500
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%	1,225,500	1,240,000
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%	1,692,500	1,712,000
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>815,400</u>	<u>828,000</u>
	<u>\$ 5,686,500</u>	<u>\$ 5,851,800</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

4. 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, 2012:

	July 1, 2011	Additions	Retirements	June 30, 2012
W&S Bond 1976	\$ 420,000	\$ -	\$ (76,000)	\$ 344,000
W&S Bond 1988	494,000	-	(19,000)	475,000
W&S Bond 1996	764,300	-	(17,200)	747,100
W&S Bond 2001	393,500	-	(6,500)	387,000
W&S Bond 2007	1,240,000	-	(14,500)	1,225,500
W&S Bond 2008	1,712,000	-	(19,500)	1,692,500
W&S Bond 2009	828,000	-	(12,600)	815,400
Garbage Truck Lease	<u>117,894</u>	<u>-</u>	<u>(32,138)</u>	<u>85,756</u>
	<u>\$ 5,969,694</u>	<u>\$ -</u>	<u>\$ (197,438)</u>	<u>\$ 5,772,256</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2012, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 205,853	\$ 237,048	\$ 442,901
2014	214,011	227,899	441,910
2015	207,392	218,381	425,773
2016	197,200	209,369	406,569
2017	109,300	200,332	309,632
2018-2022	625,300	927,881	1,553,181
2023-2027	774,200	782,718	1,556,918
2028-2032	766,500	615,957	1,382,457
2033-2037	835,600	453,533	1,289,133
2038-2042	769,100	293,616	1,062,716
2043-2047	830,200	141,250	971,450
2048-2049	<u>237,600</u>	<u>12,695</u>	<u>250,295</u>
	<u>\$ 5,772,256</u>	<u>\$ 4,320,679</u>	<u>\$ 10,092,935</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, 2012 the amount reserved for bond principal and interest payments was \$585,183 and the amount restricted for the depreciation reserve is \$403,997.

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, 2012

4. LONG - TERM DEBT (Continued)

GOVERNMENTAL ACTIVITIES

As of June 30, 2012 the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
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>\$ 116,774</u>	<u>\$ 17,526</u>	<u>\$ 134,300</u>

The following is a summary of changes in general long – term debt for the year ended June 30, 2012:

	July 1, 2011	Additions	Retirements	June 30, 2012
KY Fire Commission Loan	\$ 21,314	\$ -	\$ (6,895)	\$ 14,419
Osh Kosh Capital Lease	<u>136,990</u>	<u>-</u>	<u>(20,216)</u>	<u>116,774</u>
	<u>\$ 158,304</u>	<u>\$ -</u>	<u>\$ (27,111)</u>	<u>\$ 131,193</u>

The following is a summary of debt service requirements as of June 30, 2012:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 131,193</u>	<u>\$ 18,179</u>	<u>\$ 149,372</u>

5. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2012 were levied in October 2011 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, 2012

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, 2012, 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, 2012, participating employers contributed 18.96%, 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>
2012	\$ 157,323	100%
2011	\$ 159,906	100%
2010	\$ 149,108	100%

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 46% of the accounts receivable at June 30, 2012. In addition, one industrial company generated approximately 27% of gas service charges and comprised 31% of the accounts receivable balance reported in the Gas Fund at June 30, 2012.

10. COMMITMENTS

The City has entered into a commitment to construct a new water storage tank. This project is being funded through a Community Development Block Grant (CDBG) in the amount of \$950,000. Additionally, the City is committed to providing a \$50,000 match toward the project, per the grant agreement. As of June 30, 2012, \$489,379 has been expended towards the completion of this project.

11. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through February, 23, 2013, 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, 2012, 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, 2012

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes				
Property taxes & motor vehicle taxes	\$ 240,000	\$ 240,000	\$ 242,756	\$ 2,756
Payment in lieu of taxes	8,000	8,000	9,216	1,216
	<u>248,000</u>	<u>248,000</u>	<u>251,972</u>	<u>3,972</u>
Licenses, permits, billings				
City stickers	11,000	15,000	28,606	13,606
Franchise fees	67,000	67,000	66,737	(263)
Insurance premiums	179,000	250,000	272,541	22,541
Building permits	1,900	1,900	1,650	(250)
	<u>258,900</u>	<u>333,900</u>	<u>369,534</u>	<u>35,634</u>
Fines and forfeitures				
Parking Tickets/Arrest Fees	2,700	2,700	2,160	(540)
	<u>2,700</u>	<u>2,700</u>	<u>2,160</u>	<u>(540)</u>
Intergovernmental revenue				
Base court revenue	10,000	10,000	10,637	637
Police incentive pay	16,300	16,300	17,382	1,082
Local economic assistance	2,300	2,300	2,414	114
Other grants	14,600	197,306	188,106	(9,200)
Fire equipment grant	8,250	8,250	8,250	-
	<u>51,450</u>	<u>234,156</u>	<u>226,789</u>	<u>(7,367)</u>
Charges for services				
Fishing permits	1,850	1,200	1,510	310
Accident reports	1,125	1,125	1,093	(32)
	<u>2,975</u>	<u>2,325</u>	<u>2,603</u>	<u>278</u>
Other revenues				
Interest income	5,000	2,500	4,511	2,011
Management fees	135,000	135,000	135,000	-
Other revenues	62,000	62,000	24,708	(37,292)
	<u>202,000</u>	<u>199,500</u>	<u>164,219</u>	<u>(35,281)</u>
Sale of asset				
	-	-	409	409
Total Revenue	<u>\$ 766,025</u>	<u>\$ 1,020,581</u>	<u>\$ 1,017,686</u>	<u>\$ (2,895)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2012

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government				
Salaries	\$ 91,700	\$ 91,700	\$ 87,542	\$ (4,158)
Payroll taxes and employee benefits	28,183	28,183	28,376	193
KY ASAP grant	11,000	11,000	2,598	(8,402)
Planning and zoning expenses	6,000	6,000	4,945	(1,055)
Professional services	9,000	9,000	5,433	(3,567)
Utilities	10,000	10,000	9,048	(952)
Office supplies	3,400	3,400	2,439	(961)
Insurance	18,000	18,000	18,130	130
Travel/lodging	2,500	2,500	-	(2,500)
Lake Liberty expenses	3,500	35,763	27,761	(8,002)
Postage	1,400	1,400	207	(1,193)
Dues and subscriptions	-	-	250	250
Parks and recreation	30,000	30,000	12,977	(17,023)
CERF reimbursement	-	150,000	150,000	-
Fireworks	17,500	17,500	21,098	3,598
Flood expense	-	3,000	3,000	-
Other expenses	31,000	36,000	31,124	(4,876)
	<u>263,183</u>	<u>453,446</u>	<u>404,928</u>	<u>(48,518)</u>
Police				
Salaries	242,100	242,100	200,460	(41,640)
Payroll taxes and employee benefits	88,356	88,356	77,853	(10,503)
Motor fuels	18,000	18,000	16,457	(1,543)
Utilities	4,000	4,000	3,702	(298)
Equipment	15,000	15,000	7,270	(7,730)
Vehicle repairs	8,000	8,000	8,076	76
Uniforms	2,000	2,000	1,124	(876)
Insurance	17,000	17,000	14,969	(2,031)
Travel and lodging	500	500	-	(500)
Miscellaneous	4,500	4,498	1,952	(2,546)
	<u>399,456</u>	<u>399,454</u>	<u>331,863</u>	<u>(67,591)</u>
Fire				
Labor	53,025	34,230	34,230	-
Repairs and maintenance	2,000	6,000	5,380	(620)
Equipment	15,000	19,000	12,441	(6,559)
Utilities	8,400	8,400	8,305	(95)
Insurance	5,200	5,200	5,177	(23)
Motor fuel	4,000	4,000	3,291	(709)
Miscellaneous	3,000	16,134	6,130	(10,004)
	<u>90,625</u>	<u>92,964</u>	<u>74,954</u>	<u>(18,010)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2012

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Streets and Public Works				
Street repairs	\$ 10,000	\$ 22,286	\$ 14,636	\$ (7,650)
Repairs and maintenance	2,000	2,000	735	(1,265)
Utilities	48,000	50,000	49,523	(477)
Supplies	6,000	6,000	-	(6,000)
Insurance	2,300	2,300	2,156	(144)
Motor fuel	3,500	3,500	-	(3,500)
Miscellaneous expenses	2,000	2,000	-	(2,000)
	<u>73,800</u>	<u>88,086</u>	<u>67,050</u>	<u>(21,036)</u>
Capital Outlay	<u>55,000</u>	<u>8,000</u>	<u>34,594</u>	<u>26,594</u>
Debt Service	<u>35,110</u>	<u>35,110</u>	<u>34,395</u>	<u>(715)</u>
Total Expenditures	<u>917,174</u>	<u>1,077,060</u>	<u>947,784</u>	<u>(129,276)</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>160,000</u>	<u>160,000</u>	<u>(66,561)</u>	<u>(226,561)</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 757,174</u>	<u>\$ 917,060</u>	<u>\$ 1,014,345</u>	<u>\$ 97,285</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
SPECIAL REVENUE FUNDS
for the year ended June 30, 2012

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
CEMETERY				
Lot Sales/Donations	\$ 3,000	\$ 3,000	\$ 4,325	\$ 1,325
Interest	<u>2,500</u>	<u>2,500</u>	<u>7,012</u>	<u>4,512</u>
TOTAL REVENUE	<u>\$ 5,500</u>	<u>\$ 5,500</u>	<u>\$ 11,337</u>	<u>\$ 5,837</u>
Perpetual care trust fee	\$ 500	\$ 500	\$ 300	\$ (200)
Mowing	4,600	4,600	1,860	(2,740)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 5,100</u>	<u>\$ 5,100</u>	<u>\$ 2,160</u>	<u>\$ (2,940)</u>
MUNICIPAL ROAD AID				
Intergovernmental revenues	\$ 34,000	\$ 34,000	\$ 42,287	\$ 8,287
TOTAL REVENUE	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 42,287</u>	<u>\$ 8,287</u>
Streets	\$ 68,000	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	<u>\$ 68,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF LIBERTY, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012**

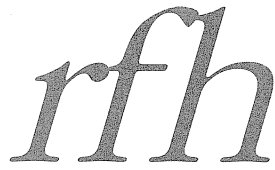
	Cemetery Fund	Municipal Road Aid Fund	Total Governmental Funds
ASSETS			
Cash	\$ 27,351	\$ 28,326	\$ 55,677
Investments	56,972	-	56,972
Receivables, net	-	6,775	6,775
Due from other funds	-	85,700	85,700
	<u>\$ 84,323</u>	<u>\$ 120,801</u>	<u>\$ 205,124</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 4,786	\$ -	\$ 4,786
Total liabilities	<u>4,786</u>	<u>-</u>	<u>4,786</u>
Fund balance	<u>79,537</u>	<u>120,801</u>	<u>200,338</u>
Total liabilities and fund balances	<u>\$ 84,323</u>	<u>\$ 120,801</u>	<u>\$ 205,124</u>

CITY OF LIBERTY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2012

	<u>Cemetery Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ -	\$ 42,287	\$ 42,287
Other revenues	<u>11,337</u>	<u>-</u>	<u>11,337</u>
Total revenues	<u>11,337</u>	<u>42,287</u>	<u>53,624</u>
EXPENDITURES			
Current			
General government	<u>2,160</u>	<u>-</u>	<u>2,160</u>
Total expenditures	<u>2,160</u>	<u>-</u>	<u>2,160</u>
Excess (deficiency) of revenues over expenditures	<u>9,177</u>	<u>42,287</u>	<u>51,464</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	9,177	42,287	51,464
Fund balances-beginning	<u>70,360</u>	<u>78,514</u>	<u>148,874</u>
Fund balances-ending	<u>\$ 79,537</u>	<u>\$ 120,801</u>	<u>\$ 200,338</u>

CITY OF LIBERTY, KENTUCKY
COMBINING STATEMENT OF OPERATING REVENUES AND EXPENSES
WATER AND SEWER PROPRIETARY FUND
for the year ended June 30, 2012

	WATER	SEWER	2012 TOTAL	2011 Totals
OPERATING REVENUES				
Charges for service	\$ 794,697	\$ 300,473	\$ 1,095,170	\$ 1,111,679
	<u>794,697</u>	<u>300,473</u>	<u>1,095,170</u>	<u>1,111,679</u>
OPERATING EXPENSES				
Salaries and wages	164,319	57,936	222,255	236,970
Casual labor	11,548	3,900	15,448	31,638
Payroll taxes	11,794	4,154	15,948	17,780
Retirement	26,570	9,424	35,994	35,523
Uniforms and laundry	5,096	2,417	7,513	7,117
Maintenance and repairs	249,608	74,484	324,092	396,075
Motor fuel	15,165	4,538	19,703	17,687
Office expense and postage	4,639	1,462	6,101	8,940
Legal and professional	16,588	15,535	32,123	24,739
Utilities	50,105	48,655	98,760	99,151
Insurance	49,422	17,884	67,306	64,298
Sludge hauling	1,986	6,732	8,718	35,118
Pretreatment expenses	-	9,869	9,869	13,898
Management fees	32,714	10,286	43,000	43,000
Other expense	10,193	21,451	31,644	14,230
Amortization	781	-	781	781
Depreciation	323,167	373,257	696,424	685,581
	<u>973,695</u>	<u>661,984</u>	<u>1,635,679</u>	<u>1,732,526</u>
OPERATING INCOME	<u>\$ (178,998)</u>	<u>\$ (361,511)</u>	<u>\$ (540,509)</u>	<u>\$ (620,847)</u>



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**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, 2012, which collectively comprise the City of Liberty, Kentucky's basic financial statements and have issued our report thereon dated February 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Liberty, Kentucky, is responsible for establishing and maintaining effective 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 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.

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**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 (continued)**

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
February 23, 2013



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**CITY OF LIBERTY, KENTUCKY
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and the City Council
City of Liberty
Liberty, Kentucky

Compliance

We have audited the City of Liberty, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Liberty, Kentucky's major federal programs for the year ended June 30, 2012. The City of Liberty, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Liberty, Kentucky's management. Our responsibility is to express an opinion on the City of Liberty, Kentucky's compliance based on our audit.

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

In our opinion, the City of Liberty, Kentucky, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the City of Liberty, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Liberty, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Liberty, Kentucky's internal control over compliance.

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**CITY OF LIBERTY, KENTUCKY
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

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

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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
February 23, 2013

CITY OF LIBERTY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant/State's Program (1)	14.228	PON2 112 1100002620 1	\$ 466,305 *
Community Development Block Grant/State's Program (1)	14.228	PON2 112 1200001680 2	150,000 *
U.S. Department of Homeland Security			
Disaster Grants - Public Assistance	97.036		<u>31,050</u>
Total Federal Financial Assistance			<u>\$ 647,355</u>

***Denotes Major Program**

Notes:

(1) Pass Through Grantor - Commonwealth of Kentucky, Kentucky Department of Local Government

Basis of Presentation

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

CITY OF LIBERTY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes No

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes None Reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program

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

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE