

**CITY OF LIBERTY**  
**Liberty, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2014**

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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, 2014. Please read in conjunction with the auditor's report on page 9-10 and the City's financial statements, which begin on page 11.

#### **FINANCIAL HIGHLIGHTS**

- The City's net position decreased in the governmental activities and decreased in the business-type activities. The net position of the governmental activities decreased by \$29,742, and the net position of the business-type activities decreased to \$10,017,056, which was a 5.6 percent decrease from the previous year.
- In the City's governmental activities, revenues decreased by \$46,256, or 5.2 percent, and expenses increased by 11.7 percent to \$1,032,097. In the business-type activities, revenues decreased to \$2,730,315 which is an decrease of 9.8 percent, while expenses increased by 1.7 percent to \$3,175,534.

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

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

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

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

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

## **FUND FINANCIAL STATEMENTS**

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

The City has two kinds of funds:

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

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

## NET POSITION

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

**Table A-1**

### Condensed Statement of Net Assets

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>
Current and Other Assets	\$ 389,533	\$ 363,493	\$ 1,759,241	\$ 2,078,553	\$ 2,148,774	\$ 2,442,046
Capital Assets	2,370,662	2,372,927	13,717,439	14,344,258	16,088,101	16,717,185
Deferred Outflows of Resources	-	-	24,252	25,033	24,252	25,033
<b>Total Assets</b>	<u>2,760,195</u>	<u>2,736,420</u>	<u>15,500,932</u>	<u>16,447,844</u>	<u>18,261,127</u>	<u>19,184,264</u>
Long-Term Debt Outstanding	118,779	73,353	4,905,000	5,159,876	5,023,779	5,233,229
Current Liabilities	<u>77,753</u>	<u>69,662</u>	<u>578,876</u>	<u>673,372</u>	<u>656,629</u>	<u>743,034</u>
<b>Total Liabilities</b>	<u>196,532</u>	<u>143,015</u>	<u>5,483,876</u>	<u>5,833,248</u>	<u>5,680,408</u>	<u>5,976,263</u>
Net Position:						
Invested in Capital Assets, net of related debt	2,222,659	2,270,033	8,581,816	8,927,342	10,804,475	11,197,375
Restricted	246,935	241,751	164,250	164,250	411,185	406,001
Unrestricted	<u>94,069</u>	<u>81,621</u>	<u>1,270,990</u>	<u>1,523,004</u>	<u>1,365,059</u>	<u>1,604,625</u>
<b>Total Net Position</b>	<u>\$ 2,563,663</u>	<u>\$ 2,593,405</u>	<u>\$ 10,017,056</u>	<u>\$ 10,614,596</u>	<u>\$ 12,580,719</u>	<u>\$ 13,208,001</u>

The net position of the City's governmental activities decreased from \$2,593,405 in 2013 to \$2,563,663 in 2014, which is a 1.1% decrease. The net position of the business-type activities decreased from \$10,614,596 to \$10,017,056 in 2014, which is a 5.6 percent decrease. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

**NET POSITION, continued**

**Table A-2**

**Condensed Statement of Activities**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for Service	\$ 2,840	\$ 2,681	\$ 2,699,072	\$ 2,479,545	\$ 2,701,912	\$ 2,482,226
Operating Grants & Contributions	90,608	160,732	-	-	90,608	160,732
Capital Grants & Contributions	8,250	8,250	6,631	521,530	14,881	529,780
<u>General Revenue</u>					-	-
Taxes	265,476	266,264	-	-	265,476	266,264
License fees	259,568	264,044	-	-	259,568	264,044
Permits	20,439	24,125	-	-	20,439	24,125
Other Grants and Contributions	2,054	2,511	-	-	2,054	2,511
Investment Earnings	7,307	5,805	24,608	25,353	31,915	31,158
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	52,297	20,683	404	-	52,701	20,683
<b>Total Revenue</b>	<b>843,839</b>	<b>890,095</b>	<b>2,730,715</b>	<b>3,026,428</b>	<b>3,574,554</b>	<b>3,916,523</b>
<b>Program Expenses</b>						
General Government	426,399	314,361	-	-	426,399	314,361
Public Safety - Police	375,133	345,210	-	-	375,133	345,210
Public Safety - Fire	140,251	119,094	-	-	140,251	119,094
Streets Department	85,999	139,215	-	-	85,999	139,215
Interest on Long-term Debt	4,315	6,096	-	-	4,315	6,096
Utility	-	-	3,175,534	3,121,012	3,175,534	3,121,012
<b>Total Program Expenses</b>	<b>1,032,097</b>	<b>923,976</b>	<b>3,175,534</b>	<b>3,121,012</b>	<b>4,207,631</b>	<b>4,044,988</b>
<b>Other Changes</b>						
Transfers	156,113	(79,771)	(156,113)	79,771	-	-
Gain (loss) on sale of assets	2,403	3,720	3,392	-	5,795	3,720
<b>Total Other Changes</b>	<b>158,516</b>	<b>(76,051)</b>	<b>(152,721)</b>	<b>79,771</b>	<b>5,795</b>	<b>3,720</b>
<b>Change In Net Position</b>	<b>\$ (29,742)</b>	<b>\$ (109,932)</b>	<b>\$ (597,540)</b>	<b>\$ (14,813)</b>	<b>\$ (627,282)</b>	<b>\$ (124,745)</b>

The City's total revenue decreased by 8.7 percent and the total cost of all programs reflected an increase of 4.0 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 2014</u>	<u>FY 2013</u>	<u>Change</u>
Taxes	\$ 265,476	\$ 266,264	\$ (788)
Licenses and permits	280,007	288,169	(8,162)
Fines and Forfeits	1,175	1,615	(440)
Intergovernmental	100,912	171,493	(70,581)
Charges for Services	2,840	2,681	159
Other Revenues	<u>193,429</u>	<u>159,873</u>	<u>33,556</u>
Total Revenues	<u>843,839</u>	<u>890,095</u>	<u>(46,256)</u>
General Government	\$ 359,564	\$ 251,591	\$ 107,973
Public Safety	459,018	413,567	45,451
Streets Department	85,999	139,215	(53,216)
Capital Outlay	127,595	68,185	59,410
Debt Service	<u>33,857</u>	<u>34,395</u>	<u>(538)</u>
Total Expenditures	<u>1,066,033</u>	<u>906,953</u>	<u>159,080</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (222,194)</u>	<u>\$ (16,858)</u>	<u>\$ (205,336)</u>

Revenues for the City's governmental activities decreased by 5.2 percent, while total expenditures increased by 17.5 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) increased by \$205,336. The City's major sources of revenue in the governmental activities are other revenue (22.9 percent), licenses and permits (33.2 percent), taxes (31.5 percent) and intergovernmental (12.0 percent). These revenue sources decreased 5.2 percent in 2014. The major change in expenditures in the governmental activities was a increase in general government of \$107,973 which is due to the support of the education center by the City during 2014.

## BUSINESS-TYPE ACTIVITIES

Looking at the business-type activities, revenues for the City decreased to \$2,270,315, or 9.8 percent, while total expenses increased 1.7 percent. The decrease of revenues combined with the increase of expenses and increase in other changes increased the change in net position to (\$597,540). The City's major source of revenue in the business-type activities is charges for services, which increased to \$2,699,072. This revenue source makes up 98.9 percent of total revenues. The capital grants and contributions included grants for the water and sewer system expansion as discussed on page 7.

## BUDGET HIGHLIGHTS

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

**Table A-4**

**Condensed Governmental Activities - Revenues and Other Financing Sources**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 262,250	\$ 265,476	\$ 3,226
Licenses and permits	292,700	280,007	(12,693)
Fines and Forfeitures	1,600	1,175	(425)
Intergovernmental	50,550	50,745	195
Charges for Services	3,050	2,840	(210)
Other Revenues	168,700	186,465	17,765
Transfers in (out)	174,000	192,513	18,513
Note Proceeds	-	74,650	74,650
Sale of Asset	-	9,063	9,063
Total Revenues and Other Financing Sources	<u>\$ 952,850</u>	<u>\$1,062,934</u>	<u>\$ 110,084</u>

**Table A-5**

**Condensed Governmental Activities - Expenditures**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 319,582	\$ 355,347	\$ 35,765
Public Safety	448,218	459,018	10,800
Streets Department	83,800	74,669	(9,131)
Debt Service	35,110	33,857	(1,253)
Capital Outlay	<u>58,600</u>	<u>127,595</u>	<u>68,995</u>
Total Expenditures	<u>\$ 945,310</u>	<u>\$1,050,486</u>	<u>\$ 105,176</u>

The City budgeted for a total of \$952,850 in revenues and other financing sources for 2014, but ended up having revenues of \$1,062,934, which put the City over the revenue budget by \$110,084. A total of \$945,310 was budgeted for expenses, and actual expenditures totaled \$1,050,486 at the end of 2014. The City was over budget on the expenses by \$105,176, as detailed above.



**CAPITAL ASSETS**

As discussed in Table A-6, the City has a total of \$26,955,163 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 0.5 percent increase from last year’s total investment of \$26,812,004.

The major capital additions in the governmental activities were a fire ladder truck for \$75,150, fire department equipment for \$9,070, a leaf truck for \$7,700 and a parking lot for \$18,350. The business-type activities major capital additions were updates to the maintenance building for \$18,637, a new truck for \$13,992, a new gas regulator for \$19,600, two new fire hydrants for \$5,954, and various sewer equipment for \$30,283.

**Table A-6**

**Capital Assets at Year End Without Depreciation**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>
Land & Improvements	\$1,457,872	\$1,427,397	\$ -	\$ -	\$ 1,457,872	\$ 1,427,397
Construction in Progress	4,000	-	18,000	18,000	22,000	18,000
Buildings & Improvements	1,133,688	1,132,488	-	-	1,133,688	1,132,488
Vehicles & Equipment	825,775	785,796	-	-	825,775	785,796
Water & Sewer System	-	-	23,515,828	23,448,323	23,515,828	23,448,323
Total Capital Assets	<u>\$3,421,335</u>	<u>\$3,345,681</u>	<u>\$ 23,533,828</u>	<u>\$23,466,323</u>	<u>\$ 26,955,163</u>	<u>\$ 26,812,004</u>

**DEBT**

This year the City has \$5,307,878 in debt, a 4.3 percent decrease from last year’s total of \$5,544,843. The City issued Series 2013A Revenue Bonds to refund all prior outstanding Water and Sewer Fund revenue bonds for \$5,475,000.

**Table A-7**

**Debt Outstanding at Year End**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>
Note Payable	\$ 148,003	\$ 102,894	\$ 17,792	\$ 52,404	\$ 165,795	\$ 155,298
Revenue Bond Payable	-	-	5,142,083	5,389,545	5,142,083	5,389,545
Total Debt Outstanding	<u>\$ 148,003</u>	<u>\$ 102,894</u>	<u>\$ 5,159,875</u>	<u>\$ 5,441,949</u>	<u>\$ 5,307,878</u>	<u>\$ 5,544,843</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected officials consider many factors when setting the fiscal year 2015 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.

**INDEPENDENT AUDITORS' REPORT**

Mayor and the City Council  
City of Liberty  
Liberty, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Liberty, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

### *Prior-Year Comparative Information*

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated April 25, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement of net position described in Note 10.

### **Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated December 29, 2014, on our consideration of the City of Liberty, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering City of Liberty, Kentucky's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley and Company, PLLC  
December 29, 2014

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	Primary Government		Total	2013 Totals
	Governmental Activities	Business-type Activities		
<b>ASSETS</b>				
Current assets				
Cash	\$ 215,494	\$ 525,348	\$ 740,842	\$ 815,969
Investments	125,016	862,285	987,301	1,150,718
Receivables (net)	56,269	187,125	243,394	214,019
Interest receivable	65	3,239	3,304	3,677
Other assets	7,500	-	7,500	20,349
Grant receivable	-	2,183	2,183	73,064
Internal balances	(14,811)	14,811	-	-
Total current assets	<u>389,533</u>	<u>1,594,991</u>	<u>1,984,524</u>	<u>2,277,796</u>
Noncurrent assets				
Restricted assets				
Cash	-	164,250	164,250	164,250
Capital assets				
Construction in progress	4,000	18,000	22,000	18,000
Land and improvements	757,851	104,272	862,123	862,123
Utility systems, net	-	13,595,167	13,595,167	14,221,986
Depreciable buildings, property, and equipment, net	1,608,811	-	1,608,811	1,615,076
Total noncurrent assets	<u>2,370,662</u>	<u>13,881,689</u>	<u>16,252,351</u>	<u>16,881,435</u>
Total assets	<u>2,760,195</u>	<u>15,476,680</u>	<u>18,236,875</u>	<u>19,159,231</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deeasance on refunding	-	24,252	24,252	25,033
Total assets and deferred outflows of resources	<u>\$ 2,760,195</u>	<u>\$ 15,500,932</u>	<u>\$ 18,261,127</u>	<u>\$ 19,184,264</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 36,530	\$ 87,389	\$ 123,919	\$ 162,830
Accounts payable-construction	-	-	-	25,000
Accrued liabilities	11,999	69,388	81,387	74,148
Customer deposits	-	154,809	154,809	154,689
Accrued interest payable	-	12,415	12,415	14,753
Current portion of long-term obligations	29,224	254,875	284,099	311,614
Total current liabilities	<u>77,753</u>	<u>578,876</u>	<u>656,629</u>	<u>743,034</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	118,779	4,905,000	5,023,779	5,233,229
Total liabilities	<u>196,532</u>	<u>5,483,876</u>	<u>5,680,408</u>	<u>5,976,263</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,222,659	8,581,816	10,804,475	11,197,375
Restricted for other purposes	246,935	164,250	411,185	406,001
Unrestricted	94,069	1,270,990	1,365,059	1,604,625
Total net position	<u>2,563,663</u>	<u>10,017,056</u>	<u>12,580,719</u>	<u>13,208,001</u>
Total liabilities and net position	<u>\$ 2,760,195</u>	<u>\$ 15,500,932</u>	<u>\$ 18,261,127</u>	<u>\$ 19,184,264</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2013 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 426,399	\$ 1,730	\$ 23,093	\$ -	\$ (401,576)	\$ -	\$ (401,576)	\$ (287,097)
Public safety-Police	375,133	1,110	17,348	-	(356,675)	-	(356,675)	(329,291)
Public safety-Fire	140,251	-	-	8,250	(132,001)	-	(132,001)	(110,844)
Street department	85,999	-	50,167	-	(35,832)	-	(35,832)	(18,985)
Interest on long-term debt	4,315	-	-	-	(4,315)	-	(4,315)	(6,096)
Total governmental activities	<u>1,032,097</u>	<u>2,840</u>	<u>90,608</u>	<u>8,250</u>	<u>(930,399)</u>	<u>-</u>	<u>(930,399)</u>	<u>(752,313)</u>
<b>Business type activities</b>								
Utility	<u>3,175,534</u>	<u>2,699,072</u>	<u>-</u>	<u>6,631</u>	<u>-</u>	<u>(469,831)</u>	<u>(469,831)</u>	<u>(119,937)</u>
Total business-type activities	<u>3,175,534</u>	<u>2,699,072</u>	<u>-</u>	<u>6,631</u>	<u>-</u>	<u>(469,831)</u>	<u>(469,831)</u>	<u>(119,937)</u>
<b>Total primary government</b>	<u>\$ 4,207,631</u>	<u>\$ 2,701,912</u>	<u>\$ 90,608</u>	<u>\$ 14,881</u>	<u>(930,399)</u>	<u>(469,831)</u>	<u>(1,400,230)</u>	<u>(872,250)</u>
<b>General revenues</b>								
Taxes								
Property taxes, levied for general purposes					265,476	-	265,476	266,264
License fee								
Franchise					77,981	-	77,981	71,382
Insurance premiums					181,587	-	181,587	192,662
Permits								
Building					2,195	-	2,195	3,030
City Stickers					18,244	-	18,244	21,095
Fines and forfeitures					1,175	-	1,175	1,615
Grants and contributions								
not restricted to specific programs					2,054	-	2,054	2,511
Investment earnings					7,307	24,608	31,915	31,158
Management fees					135,000	-	135,000	135,000
Miscellaneous					51,122	404	51,526	19,068
Total general revenues					<u>742,141</u>	<u>25,012</u>	<u>767,153</u>	<u>743,785</u>
Gain (loss) on sale of assets								
					2,403	3,392	5,795	3,720
Transfers								
					<u>156,113</u>	<u>(156,113)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>900,657</u>	<u>(127,709)</u>	<u>772,948</u>	<u>747,505</u>
<b>Change in Net Position</b>								
					(29,742)	(597,540)	(627,282)	(124,745)
Net position-beginning, as restated								
					<u>2,593,405</u>	<u>10,614,596</u>	<u>13,208,001</u>	<u>13,332,746</u>
<b>NET POSITION-ENDING</b>								
					<u>\$ 2,563,663</u>	<u>\$ 10,017,056</u>	<u>\$ 12,580,719</u>	<u>\$ 13,208,001</u>

The accompanying notes are an integral  
part of the financial statements

**CITY OF LIBERTY, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2013 Totals</u>
<b>ASSETS</b>				
Cash	\$ 183,131	\$ 32,363	\$ 215,494	\$ 61,315
Investments	67,102	57,914	125,016	250,725
Receivables (net)	51,766	4,503	56,269	50,128
Interest receivable	65	-	65	282
Other assets	7,500	-	7,500	20,349
Due from other funds	<u>4,495</u>	<u>156,941</u>	<u>161,436</u>	<u>125,111</u>
Total assets	<u>\$ 314,059</u>	<u>\$ 251,721</u>	<u>\$ 565,780</u>	<u>\$ 507,910</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 36,530	\$ -	\$ 36,530	\$ 28,040
Accrued liabilities	11,999	-	11,999	12,081
Due to other funds	<u>171,461</u>	<u>4,786</u>	<u>176,247</u>	<u>144,417</u>
Total liabilities	<u>219,990</u>	<u>4,786</u>	<u>224,776</u>	<u>184,538</u>
Fund balances				
Nonspendable	7,500	-	7,500	20,349
Restricted	-	246,935	246,935	241,751
Committed	86,569	-	86,569	250,000
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>(188,728)</u>
Total fund balances	<u>94,069</u>	<u>246,935</u>	<u>341,004</u>	<u>323,372</u>
Total liabilities and fund balances	<u>\$ 314,059</u>	<u>\$ 251,721</u>	<u>\$ 565,780</u>	<u>\$ 507,910</u>

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

Fund balances represented above	\$ 341,004	\$ 323,372
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,370,662	2,372,927
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(148,003)</u>	<u>(102,894)</u>
Net position of governmental activities	<u>\$ 2,563,663</u>	<u>\$ 2,593,405</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, 2014**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>2013 Totals</b>
<b>REVENUES</b>				
Taxes	\$ 265,476	\$ -	\$ 265,476	\$ 266,264
Licenses and permits	280,007	-	280,007	288,169
Fines and forfeits	1,175	-	1,175	1,615
Intergovernmental	50,745	50,167	100,912	171,493
Charges for service	2,840	-	2,840	2,681
Other revenues	<u>186,465</u>	<u>6,964</u>	<u>193,429</u>	<u>159,873</u>
Total revenues	<u>786,708</u>	<u>57,131</u>	<u>843,839</u>	<u>890,095</u>
<b>EXPENDITURES</b>				
Current				
General government	355,347	4,217	359,564	251,591
Public safety-Police	359,371	-	359,371	327,451
Public safety-Fire	99,647	-	99,647	86,116
Streets department	74,669	11,330	85,999	139,215
Capital outlay	127,595	-	127,595	68,185
Debt service	<u>33,857</u>	<u>-</u>	<u>33,857</u>	<u>34,395</u>
Total expenditures	<u>1,050,486</u>	<u>15,547</u>	<u>1,066,033</u>	<u>906,953</u>
Excess (deficiency) of revenues over expenditures	<u>(263,778)</u>	<u>41,584</u>	<u>(222,194)</u>	<u>(16,858)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	9,063	-	9,063	3,720
Note proceeds	74,650	-	74,650	-
Transfers in (out)	<u>192,513</u>	<u>(36,400)</u>	<u>156,113</u>	<u>(79,771)</u>
Total other financing sources and uses	<u>276,226</u>	<u>(36,400)</u>	<u>239,826</u>	<u>(76,051)</u>
<b>Net change in fund balances</b>	12,448	5,184	17,632	(92,909)
Fund balances-beginning	<u>81,621</u>	<u>241,751</u>	<u>323,372</u>	<u>416,281</u>
<b>FUND BALANCES-ENDING</b>	<u>\$ 94,069</u>	<u>\$ 246,935</u>	<u>\$ 341,004</u>	<u>\$ 323,372</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 17,632	\$ (92,909)
less: proceeds from sale of asset			(9,063)	-
add: capital outlay expenditures capitalized			127,595	68,185
add: debt service expenditures			33,857	34,395
add: gain on disposal of capital assets			2,403	-
less: depreciation on governmental activities assets			(123,201)	(113,507)
less: note proceeds			(74,650)	-
less: interest on long term debt			<u>(4,315)</u>	<u>(6,096)</u>
Change in net position Governmental Activities			<u>\$ (29,742)</u>	<u>\$ (109,932)</u>

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



**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2014**

	Business-type Activities			2014 Total	2013 Totals
	Water & Sewer Fund	Gas Fund	Garbage Fund		
<b>ASSETS</b>					
Current assets					
Cash	\$ 525,348	\$ -	\$ -	\$ 525,348	\$ 754,654
Investments	53,370	801,902	7,013	862,285	899,993
Receivables (net)	98,303	57,309	31,513	187,125	163,891
Interest receivable	63	3,176	-	3,239	3,395
Grant receivable	2,183	-	-	2,183	73,064
Due from other funds	12,418	1,393	1,000	14,811	19,306
Total current assets	<u>691,685</u>	<u>863,780</u>	<u>39,526</u>	<u>1,594,991</u>	<u>1,914,303</u>
Noncurrent assets					
Restricted assets					
Cash	164,250	-	-	164,250	164,250
Capital assets:					
Construction in progress	18,000	-	-	18,000	18,000
Land	66,872	37,400	-	104,272	104,272
Depreciable utility fixed assets	22,448,200	687,274	276,082	23,411,556	23,344,051
Less accumulated depreciation	(9,156,044)	(484,282)	(176,063)	(9,816,389)	(9,122,065)
Total noncurrent assets	<u>13,541,278</u>	<u>240,392</u>	<u>100,019</u>	<u>13,881,689</u>	<u>14,508,508</u>
Total assets	<u>14,232,963</u>	<u>1,104,172</u>	<u>139,545</u>	<u>15,476,680</u>	<u>16,422,811</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Defeasance on refunding	24,252	-	-	24,252	25,033
Total assets and deferred outflows of resources	<u>\$ 14,257,215</u>	<u>\$ 1,104,172</u>	<u>\$ 139,545</u>	<u>\$ 15,500,932</u>	<u>\$ 16,447,844</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	\$ 41,867	\$ 30,377	\$ 15,145	\$ 87,389	\$ 134,790
Accounts payable-construction	-	-	-	-	25,000
Accrued liabilities	33,186	30,972	5,230	69,388	62,067
Customer deposits	73,488	81,321	-	154,809	154,689
Accrued interest payable	12,145	-	270	12,415	14,753
Current portion of long-term obligations	237,083	-	17,792	254,875	282,073
Total current liabilities	<u>397,769</u>	<u>142,670</u>	<u>38,437</u>	<u>578,876</u>	<u>673,372</u>
Noncurrent liabilities					
Noncurrent portion of long-term obligations	4,905,000	-	-	4,905,000	5,159,876
Total noncurrent liabilities	<u>4,905,000</u>	<u>-</u>	<u>-</u>	<u>4,905,000</u>	<u>5,159,876</u>
Total liabilities	<u>5,302,769</u>	<u>142,670</u>	<u>38,437</u>	<u>5,483,876</u>	<u>5,833,248</u>
<b>NET POSITION</b>					
Net investment in capital assets	8,259,197	240,392	82,227	8,581,816	8,927,342
Restricted for					
Debt service	164,250	-	-	164,250	164,250
Unrestricted	530,999	721,110	18,881	1,270,990	1,523,004
Total net position	<u>8,954,446</u>	<u>961,502</u>	<u>101,108</u>	<u>10,017,056</u>	<u>10,614,596</u>
Total liabilities and net position	<u>\$ 14,257,215</u>	<u>\$ 1,104,172</u>	<u>\$ 139,545</u>	<u>\$ 15,500,932</u>	<u>\$ 16,447,844</u>

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

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
for the year ended June 30, 2014

	<b>Business-type Activities</b>			<b>2014 Total</b>	<b>2013 Totals</b>
	<b>Water &amp; Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>		
<b>Operating revenues</b>					
Charges for services	\$ 1,134,357	\$ 1,192,675	\$ 372,040	\$ 2,699,072	\$ 2,479,545
Total operating revenues	<u>1,134,357</u>	<u>1,192,675</u>	<u>372,040</u>	<u>2,699,072</u>	<u>2,479,545</u>
<b>Operating expenses</b>					
Salaries and wages	217,331	174,502	89,241	481,074	466,214
Casual labor	32,722	16,451	6,207	55,380	43,402
Gas purchases	-	515,017	-	515,017	363,284
Payroll taxes	15,625	12,709	6,749	35,083	33,116
Retirement	38,464	32,352	15,546	86,362	86,189
Uniforms and laundry	13,432	6,655	6,534	26,621	17,677
Maintenance and repairs	316,305	51,190	16,417	383,912	432,141
Truck expense	-	-	17,644	17,644	16,917
Motor fuel	20,399	13,434	19,652	53,485	52,799
Office expense and postage	8,168	3,229	1,453	12,850	11,662
Legal and professional	29,406	5,625	5,625	40,656	43,931
Utilities	116,349	7,819	62	124,230	120,032
Insurance	79,498	47,726	41,593	168,817	163,189
Dump expense	-	-	106,972	106,972	98,146
Sludge hauling	-	-	-	-	35,201
Pretreatment expenses	15,938	-	-	15,938	15,893
Management fees	43,000	66,000	26,000	135,000	135,000
Other expense	22,797	5,283	2,545	30,625	27,966
Depreciation	<u>689,916</u>	<u>13,786</u>	<u>17,532</u>	<u>721,234</u>	<u>729,641</u>
Total operating expenses	<u>1,659,350</u>	<u>971,778</u>	<u>379,772</u>	<u>3,010,900</u>	<u>2,892,400</u>
Operating income (loss)	(524,993)	220,897	(7,732)	(311,828)	(412,855)
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	5,911	18,527	170	24,608	25,353
Interest expense	(163,520)	-	(1,114)	(164,634)	(228,612)
Other revenues	404	-	-	404	-
Gain (loss) on sale of capital assets	<u>4,150</u>	<u>(758)</u>	<u>-</u>	<u>3,392</u>	<u>-</u>
Income (loss) before capital contributions and transfers	<u>(678,048)</u>	<u>238,666</u>	<u>(8,676)</u>	<u>(448,058)</u>	<u>(616,114)</u>
<b>Capital contributions</b>					
Tap fees	4,281	2,350	-	6,631	1,100
Grant revenues	-	-	-	-	520,430
Transfers in (out)	<u>254,934</u>	<u>(328,007)</u>	<u>(83,040)</u>	<u>(156,113)</u>	<u>79,771</u>
<b>Change in net position</b>	<u>(418,833)</u>	<u>(86,991)</u>	<u>(91,716)</u>	<u>(597,540)</u>	<u>(14,813)</u>
Total net position-beginning, as restated	<u>9,373,279</u>	<u>1,048,493</u>	<u>192,824</u>	<u>10,614,596</u>	<u>10,629,409</u>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 8,954,446</u>	<u>\$ 961,502</u>	<u>\$ 101,108</u>	<u>\$ 10,017,056</u>	<u>\$ 10,614,596</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, 2014**

	<b>Business-type Activities</b>				<b>2013 Totals</b>
	<b>Water &amp; Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	<b>2014 Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 1,126,346	\$ 1,178,367	\$ 371,065	\$ 2,675,778	\$ 2,505,415
Payments to suppliers	(669,581)	(651,957)	(217,955)	(1,539,493)	(1,551,306)
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	(297,459)	(237,687)	(115,432)	(650,578)	(619,303)
Net cash provided by operating activities	<u>116,306</u>	<u>222,723</u>	<u>11,678</u>	<u>350,707</u>	<u>199,806</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Bond principal payment	(247,462)	-	(34,612)	(282,074)	(5,830,340)
Capital contributions	75,566	2,350	-	77,916	845,365
Proceeds from bond/loan issuance	-	-	-	-	5,475,000
Proceeds from sale of assets	4,150	-	-	4,150	-
Purchases of capital assets	(84,581)	(32,993)	(2,600)	(120,174)	(917,683)
Interest paid on capital debt	(164,552)	-	(1,639)	(166,191)	(254,190)
Net cash (used) by capital and related financing activities	<u>(416,879)</u>	<u>(30,643)</u>	<u>(38,851)</u>	<u>(486,373)</u>	<u>(681,848)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Net operating transfers in (out)	<u>254,934</u>	<u>(328,007)</u>	<u>(83,040)</u>	<u>(156,113)</u>	<u>79,771</u>
Net cash provided (used) by noncapital financing activities	<u>254,934</u>	<u>(328,007)</u>	<u>(83,040)</u>	<u>(156,113)</u>	<u>79,771</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	<u>5,958</u>	<u>18,637</u>	<u>170</u>	<u>24,765</u>	<u>27,031</u>
Net cash provided by investing activities	<u>5,958</u>	<u>18,637</u>	<u>170</u>	<u>24,765</u>	<u>27,031</u>
Net increase (decrease) in cash and cash equivalents	(39,681)	(117,290)	(110,043)	(267,014)	(375,240)
Cash and cash equivalents-beginning of the year	<u>782,649</u>	<u>919,192</u>	<u>117,056</u>	<u>1,818,897</u>	<u>2,194,137</u>
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<u>\$ 742,968</u>	<u>\$ 801,902</u>	<u>\$ 7,013</u>	<u>\$ 1,551,883</u>	<u>\$ 1,818,897</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ (524,993)	\$ 220,897	\$ (7,732)	\$ (311,828)	\$ (412,855)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	689,916	13,786	17,532	721,234	729,641
Change in assets and liabilities					
Receivables, net	(8,011)	(14,248)	(975)	(23,234)	25,870
Due from other funds	4,495	-	-	4,495	-
Other assets	-	-	-	-	(202,180)
Accounts and other payables	(51,964)	3,961	542	(47,461)	49,712
Accrued expenses	6,863	(1,673)	2,311	7,501	9,618
Net cash provided by operating activities	<u>\$ 116,306</u>	<u>\$ 222,723</u>	<u>\$ 11,678</u>	<u>\$ 350,707</u>	<u>\$ 199,806</u>
Supplemental disclosures of cash flow information:					
Noncash capital and related financing activities:					
Exchange of capital assets	<u>\$ 13,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,992</u>	<u>\$ -</u>
Payables for capital items, net	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ (354,117)</u>

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

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

The City's financial statements consist of the following:

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

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation, continued**

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

The following funds are used by the City of Liberty:

Governmental Fund Types

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

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

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

**Proprietary Funds**

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

Proprietary funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's enterprise operations include the following:

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

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

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

**C. Basis of Accounting**

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

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting, continued**

Government-wide Financial Statements

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

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

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

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

**D. Budgeting**

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

**E. Internal Balances**

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

**F. Revenues and Receivables**

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, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Fund Balances**

Fund balances of the governmental funds are classified as follows:

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

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

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

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

*Unassigned* – all other spendable amounts.

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

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 7,500	\$ -	\$ 7,500
Restricted:			
Road surface repairs	-	161,444	161,444
Cemetery fund	-	85,491	85,491
Committed	<u>86,569</u>	<u>-</u>	<u>86,569</u>
Total fund balances	<u>\$ 94,069</u>	<u>\$ 246,935</u>	<u>\$ 341,004</u>

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

**H. Capital Assets**

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

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

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Use of Estimates**

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

**J. Other Accounting Policies**

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

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

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

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

**K. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through December 29, 2014, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2014, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

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

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

Interest Rate Risk

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



**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**2. CASH AND INVESTMENTS (Continued)**

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014 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, the Securities Investor Protection Corporation, or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$1,892,393 and the bank balances totaled \$1,943,638. As of June 30, 2014 \$2,480,665 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, 2014, 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	\$ 789,082	\$ 133,188	\$ 655,894	\$ -	\$ -
Money market funds	1,287	1,287	-	-	-
Mutual funds	80,070	80,070	-	-	-
Municipal bonds	105,975	-	5,508	66,898	33,569
Corporate bonds	10,887	-	10,887	-	-
	<u>\$ 987,301</u>	<u>\$ 214,545</u>	<u>\$ 672,289</u>	<u>\$ 66,898</u>	<u>\$ 33,569</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**3. ACCOUNTS RECEIVABLE**

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Governmental Funds Total</b>	
Governmental Funds:				
Taxes	\$ 7,884	\$ -	\$ 7,884	
Licenses, permits, billings	42,097	-	42,097	
Intergovernmental	<u>3,944</u>	<u>4,503</u>	<u>8,447</u>	
Gross receivables	53,925	4,503	58,428	
Less: allowance for uncollectible	<u>(2,159)</u>	<u>-</u>	<u>(2,159)</u>	
Net receivables	<u>\$ 51,766</u>	<u>\$ 4,503</u>	<u>\$ 56,269</u>	
				<b>Business- Type Activities Total</b>
Business-Type Activities:	<b>Water &amp; Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	
Customer	\$ 133,176	\$ 115,370	\$ 51,476	\$ 300,022
Less: allowance for uncollectible	<u>(34,873)</u>	<u>(58,061)</u>	<u>(19,963)</u>	<u>(112,897)</u>
Net receivables	<u>\$ 98,303</u>	<u>\$ 57,309</u>	<u>\$ 31,513</u>	<u>\$ 187,125</u>

**4. CAPITAL ASSETS**

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

	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 757,851	\$ -	\$ -	\$ 757,851
Construction in Progress	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>
	<u>757,851</u>	<u>4,000</u>	<u>-</u>	<u>761,851</u>
Capital assets that are depreciated:				
Land Improvements	\$ 669,546	\$ 30,475	\$ -	\$ 700,021
Buildings and Improvements	1,132,488	1,200	-	1,133,688
Vehicles	655,087	91,920	(51,941)	695,066
Equipment	<u>130,709</u>	<u>-</u>	<u>-</u>	<u>130,709</u>
Totals	<u>2,587,830</u>	<u>123,595</u>	<u>(51,941)</u>	<u>2,659,484</u>
Total Capital Assets	<u>3,345,681</u>	<u>127,595</u>	<u>(51,941)</u>	<u>3,421,335</u>
Less Accumulated Depreciation:				
Land Improvements	95,573	34,902	-	130,475
Buildings and Improvements	347,532	32,751	-	380,283
Vehicles	484,959	42,830	(45,282)	482,507
Equipment	<u>44,690</u>	<u>12,718</u>	<u>-</u>	<u>57,408</u>
Totals	<u>972,754</u>	<u>123,201</u>	<u>(45,282)</u>	<u>1,050,673</u>
Capital assets, net	<u>\$ 2,372,927</u>	<u>\$ 4,394</u>	<u>\$ (6,659)</u>	<u>\$ 2,370,662</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**4. CAPITAL ASSETS (Continued)**

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	18,000	-	-	18,000
Totals	<u>122,272</u>	<u>-</u>	<u>-</u>	<u>122,272</u>
Capital assets that are depreciated:				
Water Plant	\$ 13,638,254	\$ 35,294	\$ (38,161)	13,635,387
Sewer Plant	8,774,534	38,279	-	8,812,813
Gas Lines & Equipment	657,781	32,993	(3,500)	687,274
Garbage Equipment	273,482	2,600	-	276,082
Totals	<u>23,344,051</u>	<u>109,166</u>	<u>(41,661)</u>	<u>23,411,556</u>
Total Capital Assets	<u>23,466,323</u>	<u>109,166</u>	<u>(41,661)</u>	<u>23,533,828</u>
Less Accumulated Depreciation	<u>9,122,065</u>	<u>721,234</u>	<u>(26,910)</u>	<u>9,816,389</u>
Capital Assets, net	<u>\$ 14,344,258</u>	<u>\$ (612,068)</u>	<u>\$ (14,751)</u>	<u>\$ 13,717,439</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 66,836
Police	15,762
Fire	40,603
Total Depreciation Expense	<u>\$ 123,201</u>

**5. LONG - TERM DEBT**

**BUSINESS - TYPE ACTIVITIES**

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

The following is a summary of the revenue bonds outstanding for the year ended June 30, 2014 and 2013:

Revenue Bonds and Loans Payable	Outstanding June 30, 2014	Outstanding June 30, 2013
Water and Sewer Fund - \$5,475,000		
Kentucky Bond Corporation – 2013A Series		
due in monthly installments of \$12,917		
to \$21,364 through 2040, Interest at 2.0%-3.4%	<u>\$ 5,142,083</u>	<u>\$ 5,389,545</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**5. LONG - TERM DEBT (Continued)**

**BUSINESS - TYPE ACTIVITIES, continued**

During 2010, the City entered into a lease-purchase agreement with Branch Banking & Trust (BB&T) for the purchase of a garbage truck. The agreement requires semi-annual payments of \$18,125 over a period of 5 years and the interest rate is fixed at 3.74%. The total cost of the garbage truck was \$163,924 and the net book value at June 30, 2014 was \$84,694.

The future capital lease payments are summarized as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	<u>\$ 17,792</u>	<u>\$ 333</u>	<u>\$ 18,125</u>

The following is a summary of the changes in long – term debt for the year ended June 30, 2014:

	<b>July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2014</b>
W&S Bond 2013A	\$ 5,389,545	\$ -	\$ (247,462)	\$ 5,142,083
Garbage Truck Lease	<u>52,404</u>	<u>-</u>	<u>(34,612)</u>	<u>17,792</u>
	<u>\$ 5,441,949</u>	<u>\$ -</u>	<u>\$ (282,074)</u>	<u>\$ 5,159,875</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2014, are as follows:

<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 254,875	\$ 157,725	\$ 412,600
2016	221,250	152,058	373,308
2017	195,000	147,079	342,079
2018	197,083	142,692	339,775
2019	202,083	138,257	340,340
2020-2024	1,083,333	610,811	1,694,144
2025-2029	1,109,583	443,996	1,553,579
2030-2034	965,000	272,045	1,237,045
2035-2039	841,250	110,763	952,013
2040	<u>90,418</u>	<u>3,738</u>	<u>94,156</u>
	<u>\$ 5,159,875</u>	<u>\$ 2,179,164</u>	<u>\$ 7,339,039</u>

The water and sewer fund is in compliance with all significant limitations and restrictions contained in the bond indenture. As of June 30, 2014 the amount reserved for bond principal and interest payments was \$164,250. Additionally, the City has designated \$32,883 to be used for bond principal and interest payments and \$411,912 as a depreciation reserve.

**GOVERNMENTAL ACTIVITIES**

During fiscal year 2002 the City of Liberty entered an agreement with the Kentucky Fire Commission to finance construction of a new fire department. The agreement requires annual payments of \$7,535. The lease was paid off during the year ended June 30, 2014. The obligation is reported as general long-term debt.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**5. LONG - TERM DEBT (Continued)**

**GOVERNMENTAL ACTIVITIES, continued**

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 bears interest at a rate of 4.85% and requires annual payments of \$26,860 over a period of 10 years. The total cost of the fire truck was \$208,925. The obligation is reported as general long-term debt.

As of June 30, 2014 the future capital lease payments of the fire truck are summarized as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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>\$ 73,353</u>	<u>\$ 7,227</u>	<u>\$ 80,580</u>

During fiscal year 2014 the City of Liberty entered into a note payable with Casey County Bank to finance the purchase of an additional fire truck. The note bears interest at a rate of 3.0% and requires annual payments ranging from \$5,922 to \$7,822. The total cost of the fire truck was \$75,150. The obligation is reported as general long-term debt.

The following is a summary of changes in general long – term debt for the year ended June 30, 2014:

	<b>July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2014</b>
KY Fire Commission Loan	\$ 7,316	\$ -	\$ (7,316)	\$ -
Osh Kosh Capital Lease	95,578	-	(22,225)	73,353
Casey County Bank	<u>-</u>	<u>74,650</u>	<u>-</u>	<u>74,650</u>
	<u>\$ 102,894</u>	<u>\$ 74,650</u>	<u>\$ (29,541)</u>	<u>\$ 148,003</u>

The following is a summary of debt service requirements as of June 30, 2014:

<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 29,224	\$ 5,693	\$ 34,917
2016	30,428	4,489	34,917
2017	31,794	3,124	34,918
2018	6,360	1,697	8,057
2019	6,551	1,506	8,057
2020-2024	35,824	4,461	40,285
2025	<u>7,822</u>	<u>235</u>	<u>8,057</u>
<b>TOTAL</b>	<u>\$ 148,003</u>	<u>\$ 21,205</u>	<u>\$ 169,208</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**6. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2014 were levied in October 2013 on the assessed valuation of property located in Casey County as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes, are as follows:

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

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

**7. RETIREMENT PLAN**

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

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

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

Contributions – For the year ended June 30, 2014, 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89%, 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>
2014	\$ 162,791	100%
2013	\$ 157,398	100%
2012	\$ 157,323	100%

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**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 reclassification had no effect on net income or net assets as previously reported.

**10. CONCENTRATIONS**

The City has a concentration of revenue in the Water and Sewer Fund and the Gas Fund. One customer generated approximately 42% of the Water and Sewer Fund's service revenue and 40% of the accounts receivable at June 30, 2014. In addition, one industrial company generated approximately 30% of gas service charges and comprised 61% of the accounts receivable balance reported in the Gas Fund at June 30, 2014.

**11. RESTATEMENT OF NET POSITION**

Effective July 1, 2013, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the City reported debt issuance costs, including costs related to bond issuance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. Under GASB Statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, as follows:

	<b>2014</b>	<b>2013</b>
	<b>Water &amp; Sewer Fund</b>	<b>Business-type Activity Total</b>
Net position, at beginning of year	\$ 9,597,935	\$ 10,857,403
Bond issuance costs	(224,656)	(224,656)
Amortization expense	-	(3,338)
Net position, at beginning of year, as restated	<u>\$ 9,373,279</u>	<u>\$ 10,629,409</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**12. SUBSEQUENT EVENTS**

Financial Reporting for Pension Plans

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

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

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

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The City's potential unfunded liability, based on June 30, 2013 plan financial statements, is estimated to be \$1,395,582. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.



## **SUPPLEMENTAL INFORMATION**

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2014**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Taxes</b>				
Property taxes & motor vehicle taxes	\$ 245,000	\$ 253,000	\$ 256,226	\$ 3,226
Payment in lieu of taxes	9,000	9,250	9,250	-
	<u>254,000</u>	<u>262,250</u>	<u>265,476</u>	<u>3,226</u>
<b>Licenses, permits, billings</b>				
City stickers	13,000	13,000	18,244	5,244
Franchise fees	68,000	77,500	77,981	481
Insurance premiums	210,000	200,000	181,587	(18,413)
Building permits	2,000	2,200	2,195	(5)
	<u>293,000</u>	<u>292,700</u>	<u>280,007</u>	<u>(12,693)</u>
<b>Fines and forfeitures</b>				
Parking Tickets/Arrest Fees	1,600	1,600	1,175	(425)
	<u>1,600</u>	<u>1,600</u>	<u>1,175</u>	<u>(425)</u>
<b>Intergovernmental revenue</b>				
Base court revenue	11,000	11,000	9,593	(1,407)
Police incentive pay	14,500	15,500	17,348	1,848
Local economic assistance	2,300	2,300	2,054	(246)
Other grants	159,365	13,500	13,500	-
Fire equipment grant	8,250	8,250	8,250	-
	<u>195,415</u>	<u>50,550</u>	<u>50,745</u>	<u>195</u>
<b>Charges for services</b>				
Fishing permits	1,200	1,850	1,730	(120)
Accident reports	1,000	1,200	1,110	(90)
	<u>2,200</u>	<u>3,050</u>	<u>2,840</u>	<u>(210)</u>
<b>Other revenues</b>				
Interest income	1,200	1,200	3,718	2,518
Management fees	135,000	135,000	135,000	-
Other revenues	17,000	32,500	47,747	15,247
	<u>153,200</u>	<u>168,700</u>	<u>186,465</u>	<u>17,765</u>
<b>Sale of asset</b>				
	-	-	9,063	9,063
<b>Total Revenue</b>	<u>\$ 899,415</u>	<u>\$ 778,850</u>	<u>\$ 795,771</u>	<u>\$ 16,921</u>

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2014**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Government</b>				
Salaries	\$ 106,400	\$ 101,900	\$ 103,926	\$ 2,026
Payroll taxes and employee benefits	32,719	27,550	28,379	829
KY ASAP grant	10,500	10,500	8,320	(2,180)
Planning and zoning expenses	6,000	5,500	5,205	(295)
Professional services	10,000	7,500	5,625	(1,875)
Utilities	10,000	8,400	8,286	(114)
Office supplies	3,400	3,400	4,259	859
Insurance	18,000	20,000	24,687	4,687
Travel/lodging	4,000	4,000	2,761	(1,239)
Lake Liberty expenses	10,000	1,000	383	(617)
Postage	1,400	-	-	-
Dues and subscriptions	-	-	597	597
Parks and recreation	30,000	30,000	23,693	(6,307)
Education center	-	58,832	97,954	39,122
Fireworks	22,000	19,000	22,373	3,373
Other expenses	41,500	22,000	18,899	(3,101)
	<u>305,919</u>	<u>319,582</u>	<u>355,347</u>	<u>35,765</u>
<b>Police</b>				
Salaries	212,500	207,400	212,130	4,730
Payroll taxes and employee benefits	84,029	74,918	83,115	8,197
Motor fuels	18,000	18,000	17,227	(773)
Utilities	4,000	4,000	4,307	307
Equipment	15,000	7,500	6,980	(520)
Vehicle repairs	8,000	4,000	3,668	(332)
Uniforms	2,000	2,000	2,958	958
Insurance	17,000	23,000	22,627	(373)
Travel and lodging	500	-	-	-
Miscellaneous	4,500	4,500	6,359	1,859
	<u>365,529</u>	<u>345,318</u>	<u>359,371</u>	<u>14,053</u>
<b>Fire</b>				
Labor	44,400	47,900	47,600	(300)
Repairs and maintenance	2,000	2,000	1,897	(103)
Equipment	15,000	25,000	22,049	(2,951)
Utilities	8,400	11,500	11,161	(339)
Insurance	5,200	8,000	7,807	(193)
Motor fuel	5,000	3,000	2,586	(414)
Miscellaneous	3,000	5,500	6,547	1,047
	<u>83,000</u>	<u>102,900</u>	<u>99,647</u>	<u>(3,253)</u>

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2014**

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	<b>Enacted Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Streets and Public Works</b>				
Street repairs	\$ 10,000	\$ 6,000	\$ 5,360	\$ (640)
Repairs and maintenance	2,000	5,000	4,687	(313)
Utilities	50,000	69,000	64,622	(4,378)
Supplies	6,000	1,500	-	(1,500)
Insurance	2,300	2,300	-	(2,300)
	<u>70,300</u>	<u>83,800</u>	<u>74,669</u>	<u>(9,131)</u>
 <b>Capital Outlay</b>	 <u>163,865</u>	 <u>58,600</u>	 <u>127,595</u>	 <u>68,995</u>
 <b>Debt Service</b>	 <u>35,110</u>	 <u>35,110</u>	 <u>33,857</u>	 <u>(1,253)</u>
 Total Expenditures	 <u>1,023,723</u>	 <u>945,310</u>	 <u>1,050,486</u>	 <u>105,176</u>
 <b>Other Financing Sources (Uses)</b>				
Note proceeds	-	-	74,650	74,650
Transfers in (out)	160,000	174,000	192,513	18,513
	<u>160,000</u>	<u>174,000</u>	<u>192,513</u>	<u>18,513</u>
 <b>TOTAL EXPENDITURES AND TRANSFERS</b>	 <u>\$ 863,723</u>	 <u>\$ 771,310</u>	 <u>\$ 783,323</u>	 <u>\$ 12,013</u>

Note 1: Adopted budgets failed to included \$24,123 of council approved expenditures related to the education center project.

Note 2: Capital outlay includes expenditures for items funded through note proceeds that were netted against revenue and not budgeted.

**CITY OF LIBERTY, KENTUCKY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2014**

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	<b>Cemetery Fund</b>	<b>Municipal Road Aid Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 32,363	\$ -	\$ 32,363
Investments	57,914	-	57,914
Receivables, net	-	4,503	4,503
Due from other funds	-	156,941	156,941
	<u>\$ 90,277</u>	<u>\$ 161,444</u>	<u>\$ 251,721</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Due to other funds	\$ 4,786	\$ -	\$ 4,786
Total liabilities	<u>4,786</u>	<u>-</u>	<u>4,786</u>
Fund balance	<u>85,491</u>	<u>161,444</u>	<u>246,935</u>
Total liabilities and fund balances	<u>\$ 90,277</u>	<u>\$ 161,444</u>	<u>\$ 251,721</u>

**CITY OF LIBERTY, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
for the year ended June 30, 2014

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	<b>Cemetery Fund</b>	<b>Municipal Road Aid Fund</b>	<b>Total</b>
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 50,167	\$ 50,167
Other revenues	6,964	-	6,964
Total revenues	6,964	50,167	57,131
<b>EXPENDITURES</b>			
Current			
General government	4,217	-	4,217
Streets department	-	11,330	11,330
Total expenditures	4,217	11,330	15,547
Excess (deficiency) of revenues over expenditures	2,747	38,837	41,584
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	(36,400)	(36,400)
Total other financing sources and uses	-	(36,400)	(36,400)
<b>Net change in fund balances</b>	2,747	2,437	5,184
Fund balances-beginning	82,744	159,007	241,751
<b>Fund balances-ending</b>	<b>\$ 85,491</b>	<b>\$ 161,444</b>	<b>\$ 246,935</b>

**CITY OF LIBERTY, KENTUCKY**  
**COMBINING STATEMENT OF OPERATING REVENUES AND EXPENSES**  
**WATER AND SEWER PROPRIETARY FUND**  
**for the year ended June 30, 2014**

	<b>WATER</b>	<b>SEWER</b>	<b>2014 TOTAL</b>	<b>2013 Totals</b>
<b>OPERATING REVENUES</b>				
Charges for service	\$ 813,753	\$ 320,604	\$ 1,134,357	\$ 1,117,183
	<u>813,753</u>	<u>320,604</u>	<u>1,134,357</u>	<u>1,117,183</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	161,574	55,757	217,331	203,419
Casual labor	16,361	16,361	32,722	21,129
Payroll taxes	11,617	4,008	15,625	14,406
Retirement	28,596	9,868	38,464	31,407
Uniforms and laundry	7,255	6,177	13,432	8,789
Maintenance and repairs	230,882	85,423	316,305	354,375
Motor fuel	13,093	7,306	20,399	20,133
Office expense and postage	4,680	3,488	8,168	7,739
Legal and professional	17,049	12,357	29,406	30,631
Utilities	63,171	53,178	116,349	111,218
Insurance	56,240	23,258	79,498	74,857
Sludge hauling	-	-	-	35,201
Pretreatment expenses	-	15,938	15,938	15,893
Management fees	32,714	10,286	43,000	43,000
Other expense	14,336	8,461	22,797	12,100
Amortization	-	-	-	3,338
Depreciation	344,731	345,185	689,916	698,756
	<u>1,002,299</u>	<u>657,051</u>	<u>1,659,350</u>	<u>1,686,391</u>
<b>OPERATING INCOME</b>	<u>\$ (188,546)</u>	<u>\$ (336,447)</u>	<u>\$ (524,993)</u>	<u>\$ (569,208)</u>

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

Mayor and the City Council  
City of Liberty  
Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Liberty, Kentucky's basic financial statements, and have issued our report thereon dated December 29, 2014.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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



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

**Purpose of this Report**

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

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley and Company, PLLC  
December 29, 2014