

CITY OF LIBERTY
Liberty, Kentucky

FINANCIAL STATEMENTS
June 30, 2016

CONTENTS

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-10
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Statement of Net Position – Proprietary Funds.....	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds.....	17
Statement of Fiduciary Net Position.....	18
Notes to Financial Statements.....	19-34
Required Supplemental Information	
Budget Information – Major Governmental Funds	35-37
Pension – Proportionate Share of the Net Pension Liability.....	38
Pension – Schedule of Contributions	39
Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	41
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 <i>Government Auditing Standards</i>	42-44



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, 2016, 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, 2016, 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, budgetary comparison information and pension schedules on pages 3 through 10 and 35 through 39 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 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 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 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 2015 financial statements, and we expressed unmodified 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 May 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, 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.

RFH

RFH, PLLC
Lexington, Kentucky
March 10, 2017

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, 2016. Please read in conjunction with the auditor's report on page 1-2 and the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The City's net position increased in the governmental activities and decreased in the business-type activities. The net position of the governmental activities increased by \$26,327, and the net position of the business-type activities decreased to \$8,524,246, which was a 3.0 percent decrease from the previous year.
- In the City's governmental activities, revenues decreased by \$73,138, or 7.9 percent, and expenses decreased by 55.4 percent to \$910,317. In the business-type activities, revenues decreased to \$2,642,152 which is a decrease of 1.0 percent, while expenses decreased by 5.8 percent to \$2,822,973.

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 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

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Current and Other Assets	\$ 529,449	\$ 462,060	\$ 1,712,016	\$ 1,585,969	\$ 2,241,465	\$ 2,048,029
Capital Assets	2,143,998	2,241,037	12,465,218	13,032,600	14,609,216	15,273,637
Deferred Outflows	<u>77,069</u>	<u>29,497</u>	<u>184,141</u>	<u>81,966</u>	<u>261,210</u>	<u>111,463</u>
Total Assets	<u>2,750,516</u>	<u>2,732,594</u>	<u>14,361,375</u>	<u>14,700,535</u>	<u>17,111,891</u>	<u>17,433,129</u>
Long-Term Debt Outstanding	808,307	889,699	4,488,750	4,683,750	5,297,057	5,573,449
Net Pension	411,513	322,610	850,257	639,763	1,261,770	962,373
Deferred Inflows	508	28,695	1,060	56,905	1,568	85,600
Current Liabilities	<u>113,666</u>	<u>101,395</u>	<u>497,062</u>	<u>531,050</u>	<u>610,728</u>	<u>632,445</u>
Total Liabilities	<u>1,333,994</u>	<u>1,342,399</u>	<u>5,837,129</u>	<u>5,911,468</u>	<u>7,171,123</u>	<u>7,253,867</u>
Net Position:						
Net investment in capital assets	2,056,083	2,122,258	7,804,156	8,151,071	9,860,239	10,273,329
Restricted	265,737	218,815	164,250	164,250	429,987	383,065
Unrestricted	<u>(905,298)</u>	<u>(950,878)</u>	<u>555,840</u>	<u>473,746</u>	<u>(349,458)</u>	<u>(477,132)</u>
Total Net Position	<u>\$ 1,416,522</u>	<u>\$ 1,390,195</u>	<u>\$ 8,524,246</u>	<u>\$ 8,789,067</u>	<u>\$ 9,940,768</u>	<u>\$ 10,179,262</u>

After the change described above, the net position of the City's governmental activities increased from \$1,390,195 in 2015 to \$1,416,522 in 2016, which is an 18.9% increase. The net position of the business-type activities decreased from \$8,789,067 to \$8,524,246 in 2016, which is a 3.0 percent decrease. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

NET POSITION, continued

Table A-2

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Revenues						
<u>Program Revenues</u>						
Charges for Service	\$ 1,850	\$ 2,800	\$ 2,618,841	\$ 2,645,077	\$ 2,620,691	\$ 2,647,877
Operating Grants & Contributions	100,028	86,866	-	-	100,028	86,866
Capital Grants & Contributions	26,732	47,646	5,062	3,382	31,794	51,028
<u>General Revenue</u>						
Taxes	283,738	281,225	-	-	283,738	281,225
License fees	266,760	309,860	-	-	266,760	309,860
Permits	1,385	5,512	-	-	1,385	5,512
Other Grants and Contributions	2,607	2,455	-	-	2,607	2,455
Investment Earnings	4,804	1,971	18,249	17,178	23,053	19,149
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	29,740	52,447	-	3,983	29,740	56,430
Total Revenue	852,644	925,782	2,642,152	2,669,620	3,494,796	3,595,402
Program Expenses						
General Government	321,182	1,367,120	-	-	321,182	1,367,120
Public Safety - Police	372,584	361,570	-	-	372,584	361,570
Public Safety - Fire	133,265	156,066	-	-	133,265	156,066
Streets Department	59,549	144,909	-	-	59,549	144,909
Interest on Long-term Debt	23,737	11,607	-	-	23,737	11,607
Utility	-	-	2,822,973	2,997,782	2,822,973	2,997,782
Total Program Expenses	910,317	2,041,272	2,822,973	2,997,782	3,733,290	5,039,054
Other Changes						
Transfers	84,000	256,689	(84,000)	(5,238)	-	251,451
Gain (loss) on sale of assets	-	16,916	-	(256,689)	-	(239,773)
Total Other Changes	84,000	273,605	(84,000)	(261,927)	-	11,678
Change In Net Position	\$ 26,327	\$ (841,885)	\$ (264,821)	\$ (590,089)	\$ (238,494)	\$ (1,431,974)

The City's total revenue decreased by 2.8 percent and the total cost of all programs reflected a decrease of 25.9 percent. On the following page is a more in-depth description of the revenues and expenses of the governmental and business-type activities.

Looking at the business-type activities, revenues for the City decreased to \$2,642,152, or 1.0 percent, while total expenses decreased 5.8 percent. The decrease of revenues combined with the decrease of expenses and increase in other changes increased the change in net position to (\$264,821). The City's major source of revenue in the business-type activities is charges for

services, which decreased to \$2,618,841. This revenue source makes up 99.1 percent of total revenues.

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 2016</u>	<u>FY2015</u>	<u>Change</u>
Taxes	\$ 283,738	\$ 281,225	\$ 2,513
Licenses and permits	268,145	315,372	(47,227)
Fines and Forfeits	840	1,240	(400)
Intergovernmental	129,367	136,967	(7,600)
Charges for Services	1,850	2,800	(950)
Other Revenues	<u>168,704</u>	<u>188,178</u>	<u>(19,474)</u>
Total Revenues	<u>852,644</u>	<u>925,782</u>	<u>(73,138)</u>
General Government	\$ 253,710	\$ 1,291,029	\$ (1,037,319)
Public Safety	434,131	466,161	(32,030)
Streets Department	59,549	144,909	(85,360)
Capital Outlay	29,007	122,941	(93,934)
Debt Service	<u>103,904</u>	<u>40,831</u>	<u>63,073</u>
Total Expenditures	<u>880,301</u>	<u>2,065,871</u>	<u>(1,185,570)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (27,657)</u>	<u>\$ (1,140,089)</u>	<u>\$ 1,112,432</u>

Revenues for the City's governmental activities decreased by 7.9 percent, while total expenditures decreased by 57.4 percent. Governmental activities (deficiency) of revenues over expenditures before other financing sources (uses) decreased by \$1,112,432. The City's major sources of revenue in the governmental activities are other revenue (19.8 percent), licenses and permits (31.4 percent), taxes (33.3 percent) and intergovernmental (15.2 percent). These revenue sources decreased 7.8 percent in 2016. The major change in expenditures in the governmental activities was a decrease in general government of \$1,037,319 which \$1,014,909 is due to the support of the education center by the City during 2015.

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 - General Fund

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 284,200	\$ 283,738	\$ (462)
Licenses and permits	272,200	268,145	(4,055)
Fines and Forfeitures	850	840	(10)
Intergovernmental	88,082	85,727	(2,355)
Charges for Services	2,080	1,850	(230)
Other Revenues	161,515	162,977	1,462
Transfers in (out)	84,000	84,000	-
Sale of Asset	-	-	-
Note Proceeds	-	-	-
Total Revenues and Other Financing Sources	<u>\$ 892,927</u>	<u>\$ 887,277</u>	<u>\$ (5,650)</u>

Table A-5

Condensed Governmental Activities - Expenditures - General Fund

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 245,387	\$ 251,265	\$ 5,878
Public Safety	447,790	434,131	(13,659)
Streets Department	61,900	59,549	(2,351)
Bond issuance expense	-	-	-
Debt Service	103,960	103,904	(56)
Capital Outlay	<u>30,472</u>	<u>29,007</u>	<u>(1,465)</u>
Total Expenditures	<u>\$ 889,509</u>	<u>\$ 877,856</u>	<u>\$ (11,653)</u>

The City budgeted for a total of \$892,927 in revenues and other financing sources for 2016, but ended up having revenues of \$887,277, which put the City under the revenue budget by \$5,650. A total of \$889,509 was budgeted for expenses, and actual expenditures totaled \$877,856 at the end of 2016. The City was under budget on the expenses by \$11,653, as detailed above.

CAPITAL ASSETS

As discussed in Table A-6, the City has a total of \$26,928,097 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 decrease from last year's total investment of \$26,803,660.

The major capital additions in the governmental activities were a sidewalk \$18,482, a lawn mower for \$6,299, and an addition to the veterans wall for \$4,226. The business-type activities major capital additions were various water, gas and sewer equipment for \$103,258.

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>
Land & Improvements	\$ 1,500,351	\$ 1,481,869	\$ -	\$ -	\$ 1,500,351	\$ 1,481,869
Construction in Progress	-	4,000	122,048	129,886	122,048	133,886
Buildings & Improvements	992,706	984,480	-	-	992,706	984,480
Vehicles & Equipment	877,096	870,797	-	-	877,096	870,797
Water & Sewer System	-	-	23,435,896	23,332,628	23,435,896	23,332,628
Total Capital Assets	<u>\$ 3,370,153</u>	<u>\$ 3,341,146</u>	<u>\$ 23,557,944</u>	<u>\$ 23,462,514</u>	<u>\$ 26,928,097</u>	<u>\$ 26,803,660</u>

DEBT

This year the City has \$5,572,363 in debt, a 5.1 percent decrease from last year's total of \$5,873,779.

Table A-7

Debt Outstanding at Year End

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>
Note Payable	\$ 888,612	\$ 968,779	\$ -	\$ -	\$ 888,612	\$ 968,779
Revenue Bond Payable	-	-	4,683,751	4,905,000	4,683,751	4,905,000
Total Debt Outstanding	<u>\$ 888,612</u>	<u>\$ 968,779</u>	<u>\$ 4,683,751</u>	<u>\$ 4,905,000</u>	<u>\$ 5,572,363</u>	<u>\$ 5,873,779</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2016 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 Mrs. Bridget Blake, City Clerk, at P.O. Box 127, Liberty, KY 42539.

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government			2015 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash	\$ 337,129	\$ 604,366	\$ 941,495	\$ 782,920
Investments	127,762	718,094	845,856	827,253
Receivables, net	78,802	207,543	286,345	262,297
Interest receivable	67	2,952	3,019	3,584
Other assets	500	-	500	7,725
Internal balances	<u>(14,811)</u>	<u>14,811</u>	<u>-</u>	<u>-</u>
Total current assets	<u>529,449</u>	<u>1,547,766</u>	<u>2,077,215</u>	<u>1,883,779</u>
Noncurrent assets				
Restricted assets				
Cash	-	164,250	164,250	164,250
Capital assets				
Construction in progress	-	122,048	122,048	133,886
Land and improvements	757,851	104,272	862,123	862,123
Utility systems, net	-	12,238,898	12,238,898	12,798,442
Depreciable buildings, property, and equipment, net	<u>1,386,147</u>	<u>-</u>	<u>1,386,147</u>	<u>1,479,186</u>
Total noncurrent assets	<u>2,143,998</u>	<u>12,629,468</u>	<u>14,773,466</u>	<u>15,437,887</u>
Total assets	<u>2,673,447</u>	<u>14,177,234</u>	<u>16,850,681</u>	<u>17,321,666</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	77,069	161,452	238,521	87,992
Defeasance on refunding	<u>-</u>	<u>22,689</u>	<u>22,689</u>	<u>23,471</u>
Total assets and deferred outflows of resources	<u>\$ 2,750,516</u>	<u>\$ 14,361,375</u>	<u>\$ 17,111,891</u>	<u>\$ 17,433,129</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 21,316	\$ 80,775	\$ 102,091	\$ 102,390
Accrued liabilities	12,045	55,447	67,492	63,366
Customer deposits	-	154,485	154,485	154,605
Accrued interest payable	-	11,354	11,354	11,754
Current portion of long-term obligations	<u>80,305</u>	<u>195,001</u>	<u>275,306</u>	<u>300,330</u>
Total current liabilities	<u>113,666</u>	<u>497,062</u>	<u>610,728</u>	<u>632,445</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	808,307	4,488,750	5,297,057	5,573,449
Net pension liability	<u>411,513</u>	<u>850,257</u>	<u>1,261,770</u>	<u>962,373</u>
Total noncurrent liabilities	<u>1,219,820</u>	<u>5,339,007</u>	<u>6,558,827</u>	<u>6,535,822</u>
Total liabilities	<u>1,333,486</u>	<u>5,836,069</u>	<u>7,169,555</u>	<u>7,168,267</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	<u>508</u>	<u>1,060</u>	<u>1,568</u>	<u>85,600</u>
NET POSITION				
Net investment in capital assets	2,056,083	7,804,156	9,860,239	10,273,329
Restricted for other purposes	265,737	164,250	429,987	383,065
Unrestricted	<u>(905,298)</u>	<u>555,840</u>	<u>(349,458)</u>	<u>(477,132)</u>
Total net position	<u>1,416,522</u>	<u>8,524,246</u>	<u>9,940,768</u>	<u>10,179,262</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,750,516</u>	<u>\$ 14,361,375</u>	<u>\$ 17,111,891</u>	<u>\$ 17,433,129</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, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2015 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 321,182	\$ 580	\$ 39,980	\$ -	\$ (280,622)	\$ -	\$ (280,622)	\$ (1,343,042)
Public safety-Police	372,584	1,270	16,408	-	(354,906)	-	(354,906)	(307,750)
Public safety-Fire	133,265	-	-	8,250	(125,015)	-	(125,015)	(144,616)
Street department	59,549	-	43,640	18,482	2,573	-	2,573	(96,945)
Interest on long-term debt	23,737	-	-	-	(23,737)	-	(23,737)	(11,607)
Total governmental activities	910,317	1,850	100,028	26,732	(781,707)	-	(781,707)	(1,903,960)
Business-type activities								
Utility	2,822,973	2,618,841	-	5,062	-	(199,070)	(199,070)	(349,323)
Total business-type activities	2,822,973	2,618,841	-	5,062	-	(199,070)	(199,070)	(349,323)
Total primary government	\$ 3,733,290	\$ 2,620,691	\$ 100,028	\$ 31,794	(781,707)	(199,070)	(980,777)	(2,253,283)

General revenues

Taxes								
Property taxes, levied for general purposes				283,738	-	283,738	281,225	
License fee								
Franchise				73,075	-	73,075	76,016	
Insurance premiums				193,685	-	193,685	233,844	
Permits								
Building				1,385	-	1,385	595	
City stickers				-	-	-	4,917	
Fines and forfeitures				840	-	840	1,240	
Grants and contributions not restricted to specific programs				2,607	-	2,607	2,455	
Investment earnings				4,804	18,249	23,053	19,149	
Management fees				135,000	-	135,000	135,000	
Miscellaneous				28,900	-	28,900	55,190	
Total general revenues				724,034	18,249	742,283	809,631	
Gain (loss) on sale of assets				-	-	-	11,678	
Transfers				84,000	(84,000)	-	-	
Total general revenues and transfers				808,034	(65,751)	742,283	821,309	
Change in Net Position				26,327	(264,821)	(238,494)	(1,431,974)	
Net position-beginning, as restated				1,390,195	8,789,067	10,179,262	11,611,236	
NET POSITION-ENDING				\$ 1,416,522	\$ 8,524,246	\$ 9,940,768	\$ 10,179,262	

The accompanying notes are an integral
part of the financial statements

**CITY OF LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General	Other Governmental Funds	Total Governmental Funds	2015 Totals
ASSETS				
Cash	\$ 299,747	\$ 37,382	\$ 337,129	284,064
Investments	69,092	58,670	127,762	125,289
Receivables, net	73,861	4,941	78,802	59,727
Interest receivable	67	-	67	66
Other assets	500	-	500	7,725
Due from other funds	4,495	169,530	174,025	129,545
Total assets	<u>\$ 447,762</u>	<u>\$ 270,523</u>	<u>\$ 718,285</u>	<u>\$ 606,416</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 21,316	\$ -	\$ 21,316	\$ 11,079
Accrued liabilities	12,045	-	12,045	11,236
Due to other funds	184,050	4,786	188,836	144,356
Total liabilities	<u>217,411</u>	<u>4,786</u>	<u>222,197</u>	<u>166,671</u>
Fund balances				
Nonspendable	500	-	500	7,725
Restricted	-	265,737	265,737	218,815
Committed	-	-	-	-
Unassigned	229,851	-	229,851	213,205
Total fund balances	<u>230,351</u>	<u>265,737</u>	<u>496,088</u>	<u>439,745</u>
Total liabilities and fund balances	<u>\$ 447,762</u>	<u>\$ 270,523</u>	<u>\$ 718,285</u>	<u>\$ 606,416</u>

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

Fund balances represented above	\$ 496,088	\$ 439,745
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,143,998	2,241,037
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds	76,561	802
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds	<u>(1,300,125)</u>	<u>(1,291,389)</u>
Net position of governmental activities	<u>\$ 1,416,522</u>	<u>\$ 1,390,195</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, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2015 Totals</u>
REVENUES				
Taxes	\$ 283,738	\$ -	\$ 283,738	\$ 281,225
Licenses and permits	268,145	-	268,145	315,372
Fines and forfeits	840	-	840	1,240
Intergovernmental	85,727	43,640	129,367	136,967
Charges for service	1,850	-	1,850	2,800
Other revenues	<u>162,977</u>	<u>5,727</u>	<u>168,704</u>	<u>188,178</u>
Total revenues	<u>803,277</u>	<u>49,367</u>	<u>852,644</u>	<u>925,782</u>
EXPENDITURES				
Current				
General government	251,265	2,445	253,710	1,291,029
Public safety-Police	344,693	-	344,693	351,939
Public safety-Fire	89,438	-	89,438	114,222
Streets department	59,549	-	59,549	144,909
Capital outlay	29,007	-	29,007	122,941
Debt service	<u>103,904</u>	<u>-</u>	<u>103,904</u>	<u>40,831</u>
Total expenditures	<u>877,856</u>	<u>2,445</u>	<u>880,301</u>	<u>2,065,871</u>
Excess (deficiency) of revenues over expenditures	<u>(74,579)</u>	<u>46,922</u>	<u>(27,657)</u>	<u>(1,140,089)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	-	144,557
Note proceeds	-	-	-	850,000
Bond expense	-	-	-	(13,500)
Transfers in (out)	<u>84,000</u>	<u>-</u>	<u>84,000</u>	<u>256,689</u>
Total other financing sources and uses	<u>84,000</u>	<u>-</u>	<u>84,000</u>	<u>1,237,746</u>
Net change in fund balances	9,421	46,922	56,343	97,657
Fund balances-beginning, as restated	<u>220,930</u>	<u>218,815</u>	<u>439,745</u>	<u>342,088</u>
FUND BALANCES-ENDING	<u>\$ 230,351</u>	<u>\$ 265,737</u>	<u>\$ 496,088</u>	<u>\$ 439,745</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 56,343	\$ 97,657
less: proceeds from sale of asset			-	(144,557)
add: capital outlay expenditures capitalized			29,007	122,941
add: debt service expenditures			103,904	40,831
add: gain on disposal of capital assets			-	16,916
less: depreciation on governmental activities assets			(126,046)	(124,926)
less: note proceeds			-	(850,000)
change in net pension liability			(13,144)	10,860
less: interest on long term debt			<u>(23,737)</u>	<u>(11,607)</u>
Change in net position Governmental Activities			<u>\$ 26,327</u>	<u>\$ (841,885)</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Business-type Activities				2016 Total	2015 Totals
	Water Fund	Sewer Fund	Gas Fund	Garbage Fund		
ASSETS						
Current assets						
Cash	\$ 350,267	\$ 152,603	\$ 12,880	\$ 88,616	\$ 604,366	\$ 498,856
Investments	55,223	-	655,616	7,255	718,094	701,964
Receivables (net)	86,982	40,804	48,518	31,239	207,543	202,570
Interest receivable	65	-	2,887	-	2,952	3,518
Due from other funds	12,418	-	1,393	1,000	14,811	14,811
Total current assets	<u>504,955</u>	<u>193,407</u>	<u>721,294</u>	<u>128,110</u>	<u>1,547,766</u>	<u>1,421,719</u>
Noncurrent assets						
Restricted assets						
Cash	103,954	60,296	-	-	164,250	164,250
Capital assets:						
Construction in progress	18,000	104,048	-	-	122,048	129,886
Land	-	66,872	37,400	-	104,272	104,272
Depreciable utility fixed assets	13,799,064	8,609,585	646,893	276,082	23,331,624	23,228,356
Less accumulated depreciation	<u>(5,645,817)</u>	<u>(4,776,808)</u>	<u>(448,323)</u>	<u>(221,778)</u>	<u>(11,092,726)</u>	<u>(10,429,914)</u>
Total noncurrent assets	<u>8,275,201</u>	<u>4,063,993</u>	<u>235,970</u>	<u>54,304</u>	<u>12,629,468</u>	<u>13,196,850</u>
Total assets	<u>8,780,156</u>	<u>4,257,400</u>	<u>957,264</u>	<u>182,414</u>	<u>14,177,234</u>	<u>14,618,569</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	55,925	18,197	68,710	18,620	161,452	58,495
Defeasance on refunding	<u>14,360</u>	<u>8,329</u>	<u>-</u>	<u>-</u>	<u>22,689</u>	<u>23,471</u>
Total assets and deferred outflows of resources	<u>\$ 8,850,441</u>	<u>\$ 4,283,926</u>	<u>\$ 1,025,974</u>	<u>\$ 201,034</u>	<u>\$ 14,361,375</u>	<u>\$ 14,700,535</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 17,003	\$ 23,607	\$ 23,375	\$ 16,790	\$ 80,775	\$ 91,311
Accrued liabilities	15,476	6,120	31,281	2,570	55,447	52,130
Customer deposits	73,404	-	81,081	-	154,485	154,605
Accrued interest payable	7,186	4,168	-	-	11,354	11,754
Current portion of long-term obligations	<u>123,416</u>	<u>71,585</u>	<u>-</u>	<u>-</u>	<u>195,001</u>	<u>221,250</u>
Total current liabilities	<u>236,485</u>	<u>105,480</u>	<u>135,737</u>	<u>19,360</u>	<u>497,062</u>	<u>531,050</u>
Noncurrent liabilities						
Noncurrent portion of long-term obligations	2,840,930	1,647,820	-	-	4,488,750	4,683,750
Net pension liability	<u>323,980</u>	<u>74,789</u>	<u>358,124</u>	<u>93,364</u>	<u>850,257</u>	<u>639,763</u>
Total noncurrent liabilities	<u>3,164,910</u>	<u>1,722,609</u>	<u>358,124</u>	<u>93,364</u>	<u>5,339,007</u>	<u>5,323,513</u>
Total liabilities	<u>3,401,395</u>	<u>1,828,089</u>	<u>493,861</u>	<u>112,724</u>	<u>5,836,069</u>	<u>5,854,563</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pension	<u>367</u>	<u>119</u>	<u>452</u>	<u>122</u>	<u>1,060</u>	<u>56,905</u>
NET POSITION						
Net investment in capital assets	5,221,261	2,292,621	235,970	54,304	7,804,156	8,151,071
Restricted for debt service	103,954	60,296	-	-	164,250	164,250
Unrestricted	<u>123,464</u>	<u>102,801</u>	<u>295,691</u>	<u>33,884</u>	<u>555,840</u>	<u>473,746</u>
Total net position	<u>5,448,679</u>	<u>2,455,718</u>	<u>531,661</u>	<u>88,188</u>	<u>8,524,246</u>	<u>8,789,067</u>
Total liabilities and net position	<u>\$ 8,850,441</u>	<u>\$ 4,283,926</u>	<u>\$ 1,025,974</u>	<u>\$ 201,034</u>	<u>\$ 14,361,375</u>	<u>\$ 14,700,535</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, 2016

	Business-type Activities				2016 Total	2015 Totals
	Water Fund	Sewer Fund	Gas Fund	Garbage Fund		
Operating revenues						
Charges for services	\$ 911,394	\$ 392,541	\$ 934,056	\$ 380,850	\$ 2,618,841	\$ 2,645,077
Total operating revenues	911,394	392,541	934,056	380,850	2,618,841	2,645,077
Operating expenses						
Salaries and wages	179,297	51,423	202,562	54,744	488,026	463,842
Casual labor	6,980	2,966	9,251	4,710	23,907	31,935
Gas purchases	-	-	269,015	-	269,015	384,503
Payroll taxes	13,053	3,683	14,129	3,885	34,750	32,981
Retirement	43,593	17,183	57,468	15,934	134,178	59,127
Uniforms and laundry	3,896	2,610	6,956	4,976	18,438	21,150
Maintenance and repairs	245,887	60,858	25,711	15,800	348,256	341,684
Truck expense	-	-	-	3,403	3,403	7,499
Motor fuel	4,370	3,333	6,028	12,444	26,175	36,253
Office expense and postage	4,028	2,974	1,974	3,255	12,231	12,035
Legal and professional	13,241	16,801	7,075	7,075	44,192	41,960
Utilities	56,099	47,517	9,522	-	113,138	114,774
Insurance	48,312	42,638	78,715	30,690	200,355	178,786
Dump expense	-	-	-	117,910	117,910	114,320
Sludge hauling	-	11,491	-	-	11,491	7,222
Pretreatment expenses	-	14,741	-	-	14,741	18,345
Management fees	32,714	10,286	66,000	26,000	135,000	135,000
Other expense	5,576	1,030	4,535	1,369	12,510	26,349
Depreciation	350,128	280,972	14,058	17,660	662,818	812,173
Total operating expenses	1,007,174	570,506	772,999	319,855	2,670,534	2,839,938
Operating income (loss)	(95,780)	(177,965)	161,057	60,995	(51,693)	(194,861)
Nonoperating revenues (expenses)						
Investment earnings	2,981	632	14,514	122	18,249	17,178
Interest expense	(96,479)	(55,960)	-	-	(152,439)	(157,844)
Other revenues	-	-	-	-	-	3,983
Gain (loss) on sale of capital assets	-	-	-	-	-	(5,238)
Income (loss) before capital contributions and transfers	(189,278)	(233,293)	175,571	61,117	(185,883)	(336,782)
Capital contributions						
Tap fees	1,300	-	3,762	-	5,062	3,382
Transfers in (out)	-	100,103	(184,103)	-	(84,000)	(256,689)
Change in net position	(187,978)	(133,190)	(4,770)	61,117	(264,821)	(590,089)
Total net position-beginning, as restated	5,636,657	2,588,908	536,431	27,071	8,789,067	9,379,156
TOTAL NET POSITION-ENDING	\$ 5,448,679	\$ 2,455,718	\$ 531,661	\$ 88,188	\$ 8,524,246	\$ 8,789,067

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, 2016

	Business-type Activities				2016 Total	2015 Totals
	Water Fund	Sewer Fund	Gas Fund	Garbage Fund		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 905,820	\$ 378,024	\$ 949,398	\$ 380,506	\$ 2,613,748	\$ 2,629,512
Payments to suppliers	(399,482)	(195,710)	(415,306)	(191,908)	(1,202,406)	(1,306,762)
Payments for interfund services (payment in lieu of taxes)	(32,714)	(10,286)	(66,000)	(26,000)	(135,000)	(135,000)
Payments for employee services and benefits	(228,906)	(66,301)	(256,665)	(73,981)	(625,853)	(604,870)
Net cash provided by operating activities	<u>244,718</u>	<u>105,727</u>	<u>211,427</u>	<u>88,617</u>	<u>650,489</u>	<u>582,880</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Bond principal payment	(140,029)	(81,220)	-	-	(221,249)	(254,877)
Capital contributions	1,300	-	3,762	-	5,062	3,382
Purchases of capital assets	(8,450)	(68,762)	(18,208)	-	(95,420)	(120,686)
Interest paid on capital debt	(96,209)	(55,848)	-	-	(152,057)	(157,725)
Net cash (used) by capital and related financing activities	<u>(243,388)</u>	<u>(205,830)</u>	<u>(14,446)</u>	<u>-</u>	<u>(463,664)</u>	<u>(529,906)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Net operating transfers in (out)	-	100,103	(184,103)	-	(84,000)	(256,689)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>100,103</u>	<u>(184,103)</u>	<u>-</u>	<u>(84,000)</u>	<u>(256,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends	2,980	632	15,081	122	18,815	16,902
Net cash provided by investing activities	<u>2,980</u>	<u>632</u>	<u>15,081</u>	<u>122</u>	<u>18,815</u>	<u>16,902</u>
Net increase (decrease) in cash and cash equivalents	4,310	632	27,959	88,739	121,640	(186,813)
Cash and cash equivalents-beginning of the year	505,134	212,267	640,536	7,133	1,365,070	1,551,883
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 509,444</u>	<u>\$ 212,899</u>	<u>\$ 668,495</u>	<u>\$ 95,872</u>	<u>\$ 1,486,710</u>	<u>\$ 1,365,070</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (95,780)	\$ (177,965)	\$ 161,057	\$ 60,995	\$ (51,693)	\$ (194,861)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation expense	350,128	280,972	14,058	17,660	662,818	812,173
Change in assets and liabilities						
Receivables, net	(5,574)	(14,517)	15,462	(344)	(4,973)	(15,445)
Other assets	-	-	-	-	-	6,166
Accounts and other payables	(18,073)	8,283	(5,775)	5,014	(10,551)	(7,964)
Accrued expenses	(1,004)	1,068	4,262	(1,129)	3,197	4,344
Net pension adjustment	15,021	7,886	22,363	6,421	51,691	(21,533)
Net cash provided by operating activities	<u>\$ 244,718</u>	<u>\$ 105,727</u>	<u>\$ 211,427</u>	<u>\$ 88,617</u>	<u>\$ 650,489</u>	<u>\$ 582,880</u>
Supplemental disclosures of cash flow information:						
Noncash capital and related financing activities:						
Payables for capital items, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,886)</u>

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

CITY OF LIBERTY, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Restaurant Tax Agency Fund
	<u> </u>
ASSETS	
Cash	\$ 18,610
Receivables, net	<u>17,020</u>
 Total assets	 <u>\$ 35,630</u>
 LIABILITIES AND FUND BALANCES	
Liabilities	
Due to Tourism Commission	<u>\$ 35,630</u>
 Total liabilities	 <u>\$ 35,630</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Liberty, Kentucky (the City) 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 scope of public service, and the ability to significantly influence operation, select the governing body, and participate in fiscal management.

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.

The Liberty Tourist and Convention Commission was created by the City Council and members of the board are appointed by the City. The City's accountability for this entity does not extend beyond making appointments and collecting and remitting the restaurant tax on behalf of the Commission. The Commission is excluded from the City's financial statements.

B. Basis of Presentation

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.

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, continued

The following funds are used by the City of Liberty:

Governmental Funds

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

Sewer Fund – A proprietary fund used to account for the 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.

Fiduciary Fund - The fiduciary fund consists of an Agency Fund. The Agency fund is used to collect and remit restaurant taxes on behalf of the Liberty Tourism and Convention Commission.

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 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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting, continued

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. 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, 2016

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, 2016, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –prepaid expenses	\$ 500	\$ -	\$ 500
Restricted:			
Road surface repairs	-	174,471	174,471
Cemetery fund	-	91,266	91,266
Unassigned	<u>229,851</u>	<u>-</u>	<u>229,851</u>
Total fund balances	<u>\$ 230,351</u>	<u>\$ 265,737</u>	<u>\$ 496,088</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

K. 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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through March 10, 2017, 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, 2016, 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.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016 the City held investments in the following municipal and corporate bonds. Bond ratings were not available for disclosure.

Municipal Bonds

American Municipal Power In Oh Series A
Clark County Nevada Las Vegas Convention
Florida State Department Management Services
Illinois Municipal Electric Agency Power Supply System
Illinois State GO Pension
Massachusetts Health and Education Northeast University
Minnesota Financial School Loan Revolving Fund
New Hampshire State Federal Highway Grant Anticipation
Walnut California Energy Center

Corporate Bonds

Citigroup Inc Senior Note

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

2. CASH AND INVESTMENTS (Continued)

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 \$1,970,211 and the bank balances totaled \$2,017,150. As of June 30, 2016 \$2,139,649 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, 2016, are as follows:

<u>Investment Type</u>	<u>Book 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	\$ 635,847	\$ -	\$ 635,847	\$ -	\$ -
Money market funds	2,361	2,361	-	-	-
Mutual funds	99,219	99,219	-	-	-
Municipal bonds	103,343	-	49,636	22,816	30,891
Corporate bonds	5,086	-	5,086	-	-
	<u>\$ 845,856</u>	<u>\$ 101,580</u>	<u>\$ 690,569</u>	<u>\$ 22,816</u>	<u>\$ 30,891</u>

Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Money market funds	\$ 2,361	\$ 2,361	\$ -	\$ -
Mutual funds	99,219	99,219	-	-
Municipal bonds	103,343	-	103,343	-
Corporate bonds	5,086	-	5,086	-
	<u>\$ 210,009</u>	<u>\$ 101,580</u>	<u>\$ 108,429</u>	<u>\$ -</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

	General Fund	Nonmajor Funds	Governmental Funds Total		
Governmental Funds:					
Taxes	\$ 20,476	\$ -	\$ 20,476		
Licenses, permits, billings	42,243	-	42,243		
Intergovernmental	<u>15,773</u>	<u>4,941</u>	<u>20,714</u>		
Gross receivables	78,492	4,941	83,433		
Less: allowance for uncollectible	<u>(4,631)</u>	<u>-</u>	<u>(4,631)</u>		
Net receivables	<u>\$ 73,861</u>	<u>\$ 4,941</u>	<u>\$ 78,802</u>		
	Water Fund	Sewer Fund	Gas Fund	Garbage Fund	Business- Type Activities Total
Business-type Activities:					
Customer	\$ 102,702	\$ 53,107	\$ 100,065	\$ 53,673	\$ 309,547
Other	-	8,000	-	-	8,000
Less: allowance for uncollectible	<u>(15,720)</u>	<u>(20,303)</u>	<u>(51,547)</u>	<u>(22,434)</u>	<u>(110,004)</u>
Net receivables	<u>\$ 86,982</u>	<u>\$ 40,804</u>	<u>\$ 48,518</u>	<u>\$ 31,239</u>	<u>\$ 207,543</u>

4. CAPITAL ASSETS

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

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 757,851	\$ -	\$ -	\$ 757,851
Construction in Progress	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>	<u>-</u>
Totals	<u>761,851</u>	<u>-</u>	<u>-</u>	<u>757,851</u>
Capital assets that are depreciated:				
Land Improvements	\$ 724,018	\$ 18,482	\$ -	\$ 742,500
Buildings and Improvements	984,480	8,226	-	992,706
Vehicles	733,957	-	-	733,957
Equipment	<u>136,840</u>	<u>6,299</u>	<u>-</u>	<u>143,139</u>
Totals	<u>2,579,295</u>	<u>33,007</u>	<u>-</u>	<u>2,612,302</u>
Total Capital Assets	<u>3,341,146</u>	<u>33,007</u>	<u>(4,000)</u>	<u>3,370,153</u>
Less Accumulated Depreciation:				
Land Improvements	166,617	36,631	-	203,248
Buildings and Improvements	378,369	27,682	-	406,051
Vehicles	485,538	48,617	-	534,155
Equipment	<u>69,585</u>	<u>13,116</u>	<u>-</u>	<u>82,701</u>
Totals	<u>1,100,109</u>	<u>126,046</u>	<u>-</u>	<u>1,226,155</u>
Capital assets, net	<u>\$ 2,241,037</u>	<u>\$ (93,039)</u>	<u>\$ (4,000)</u>	<u>\$ 2,143,998</u>

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

4. CAPITAL ASSETS (Continued)

	Balance			Balance
	June 30, 2015	Additions	Deductions	June 30, 2016
Business-type Activities				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in Progress	<u>129,886</u>	<u>4,048</u>	<u>(11,886)</u>	<u>122,048</u>
Totals	<u>234,158</u>	<u>4,048</u>	<u>(11,886)</u>	<u>226,320</u>
Capital assets that are depreciated:				
Water Plant	\$ 13,784,468	\$ 14,596	\$ -	13,799,064
Sewer Plant	8,544,861	64,724	-	8,609,585
Gas Lines & Equipment	622,955	23,938	-	646,893
Garbage Equipment	<u>276,082</u>	<u>-</u>	<u>-</u>	<u>276,082</u>
Totals	<u>23,228,366</u>	<u>103,258</u>	<u>-</u>	<u>23,331,624</u>
 Total Capital Assets	 <u>23,462,524</u>	 <u>107,306</u>	 <u>(11,886)</u>	 <u>23,557,944</u>
 Less Accumulated Depreciation	 <u>10,429,908</u>	 <u>662,818</u>	 <u>-</u>	 <u>11,092,726</u>
 Capital Assets, net	 <u>\$ 13,032,616</u>	 <u>\$ (555,512)</u>	 <u>\$ (11,886)</u>	 <u>\$ 12,465,218</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 63,919
Police	18,300
Fire	<u>43,827</u>
 Total Depreciation Expense	 <u>\$ 126,046</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 Fund 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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. LONG - TERM DEBT (CONTINUED)

BUSINESS - TYPE ACTIVITIES (continued)

The following is a summary of the revenue bonds outstanding for the year ended June 30, 2016 and 2015:

Revenue Bonds	Total Outstanding June 30, 2016	Sewer Fund Allocation June 30, 2016	Water Fund Allocation June 30, 2016
Water and Sewer Funds - \$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>\$ 4,683,751</u>	<u>\$ 1,719,405</u>	<u>\$ 2,964,346</u>

The following is a summary of the changes in long – term debt for the year ended June 30, 2016:

	July 1, 2015	Additions	Retirements	June 30, 2016
W&S Bond 2013A	\$ 4,905,000	\$ _____	\$ (221,249)	\$ 4,683,751
	<u>\$ 4,905,000</u>	<u>\$ _____</u>	<u>\$ (221,249)</u>	<u>\$ 4,683,751</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2016, are as follows:

June 30	Principal	Interest	Total
2017	\$ 195,000	\$ 147,079	\$ 342,079
2018	197,083	142,692	339,775
2019	202,084	138,257	340,341
2020	207,083	133,540	340,623
2021	212,083	128,204	340,287
2022-2026	1,118,334	549,031	1,667,365
2027-2031	1,054,167	372,511	1,426,678
2032-2036	914,583	206,135	1,120,718
2037-2040	<u>583,334</u>	<u>51,932</u>	<u>635,266</u>
	<u>\$ 4,683,751</u>	<u>\$ 1,869,381</u>	<u>\$ 6,553,132</u>

The water and sewer funds are in compliance with all significant limitations and restrictions contained in the bond indenture. As of June 30, 2016, the amount reserved for bond principal and interest payments was \$164,250. Additionally, the City has designated \$152,603 for the sewer fund and \$263,618 for the water fund as a depreciation reserve.

GOVERNMENTAL ACTIVITIES

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 and the net book value at June 30, 2016 was \$181,068. The obligation is reported as general long-term debt.

**CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

5. LONG - TERM DEBT (Continued)

GOVERNMENTAL ACTIVITIES, continued

As of June 30, 2016, the future capital lease payments of the fire truck are summarized as follows:

	Principal	Interest	Total
2017	<u>\$ 25,618</u>	<u>\$ 1,242</u>	<u>\$ 26,860</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 and the net book value of the truck at June 30, 2016 was \$21,919. The obligation is reported as general long-term debt.

During fiscal year 2015, the City of Liberty entered into a lease with Casey County Bank to pay off a revolving note plus additional expenses related to the Casey County Education and Learning Center. The lease bears interest at 2.5% and has quarterly interest due and semi-annual principal. 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, 2016:

	July 1, 2015	Additions	Retirements	June 30, 2016
Osh Kosh Capital Lease	\$ 50,051	\$ -	\$ (24,433)	\$ 25,618
Casey County Bank - 2014	68,728	-	(6,431)	62,297
Casey County Bank - 2015	<u>850,000</u>	<u>-</u>	<u>(49,303)</u>	<u>800,697</u>
	<u>\$ 968,779</u>	<u>\$ -</u>	<u>\$ (80,167)</u>	<u>\$ 888,612</u>

The following is a summary of debt service requirements as of June 30, 2016:

June 30,	Principal	Interest	Total
2017	\$ 80,305	\$ 23,158	\$ 103,463
2018	56,083	20,517	76,600
2019	57,518	19,084	76,602
2020	58,989	17,613	76,602
2021	60,497	16,105	76,602
2022-2026	318,009	56,506	374,515
2027-2030	<u>257,211</u>	<u>16,315</u>	<u>273,526</u>
TOTAL	<u>\$ 888,612</u>	<u>\$ 169,298</u>	<u>\$ 1,057,910</u>

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2016 were levied in October 2015 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, 2016

7. RETIREMENT PLAN

CERS

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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 adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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, 2016, participating employers contributed 17.06% 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.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$120,923 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$88,308 to the CERS pension fund and \$32,615 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old 25 years service and any age

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. RETIREMENT PLAN (CONTINUED)

Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –

At June 30, 2016, the City reported a liability of \$1,261,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .029579 percent, which was an increase of .000061 percent from its proportion at June 30, 2015 (.029640 percent).

For the year ended June 30, 2016, the City recognized pension expense of \$142,459. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 10,569	\$ -
Changes of assumptions	128,244	-
Net difference between projected and actual earnings on Plan investments	11,400	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,568
City contributions subsequent to the measurement date	<u>88,308</u>	<u>-</u>
Total	<u>\$ 238,521</u>	<u>\$ 1,568</u>

**CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

7. RETIREMENT PLAN (CONTINUED)

The \$88,308 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2017	\$	64,841
2018		64,841
2019		37,743
2020		(17,213)

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

7. RETIREMENT PLAN (CONTINUED)

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 1,623,579
Current discount rate	7.50%	\$ 1,261,770
1% increase	8.50%	\$ 970,486

Payable to the Pension Plan – At June 30, 2016, the City reported a payable of \$12,069 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

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.

CITY OF LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

9. CONCENTRATIONS

The City has a concentration of revenue in the Water Fund and the Gas Fund. One customer generated approximately 60% of the Water Fund's service revenue and 58% of the accounts receivable at June 30, 2016. In addition, one industrial company generated approximately 32% of gas service charges and comprised 49% of the accounts receivable balance reported in the Gas Fund at June 30, 2016.

10. RECLASSIFICATION

During 2016, the City elected to break out water and sewer operations in separate funds. Beginning net position was reclassified to reflect the beginning balances of these funds separately. \$5,636,657 of beginning net position was allocated to the Water Fund and \$2,588,908 was allocated to the Sewer Fund. Total net position of business-type activities was unaffected.

During 2016, the City re-evaluated the reporting of the Restaurant Tax fund and found that the fund was more representative of a fiduciary fund rather than a special revenue fund. The fund collects and remits restaurant taxes on behalf of the Liberty Tourism and Convention Commission. The fund has been reclassified as an agency fund.

SUPPLEMENTAL INFORMATION

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes				
Property taxes & motor vehicle taxes	\$ 266,500	\$ 274,500	\$ 272,904	\$ (1,596)
Payment in lieu of taxes	<u>9,250</u>	<u>9,700</u>	<u>10,834</u>	<u>1,134</u>
	<u>275,750</u>	<u>284,200</u>	<u>283,738</u>	<u>(462)</u>
Licenses and permits				
Franchise fees	69,000	73,000	73,075	75
Insurance premiums	210,000	198,000	193,685	(4,315)
Building permits	<u>600</u>	<u>1,200</u>	<u>1,385</u>	<u>185</u>
	<u>279,600</u>	<u>272,200</u>	<u>268,145</u>	<u>(4,055)</u>
Fines and forfeitures				
Parking Tickets/Arrest Fees	<u>1,000</u>	<u>850</u>	<u>840</u>	<u>(10)</u>
	<u>1,000</u>	<u>850</u>	<u>840</u>	<u>(10)</u>
Intergovernmental				
Base court revenue	9,700	8,300	8,767	467
Police incentive pay	15,500	16,700	16,408	(292)
Local economic assistance	2,900	2,550	2,607	57
Police grant	-	-	-	-
Other grants	158,865	52,282	49,695	(2,587)
Fire equipment grant	<u>8,250</u>	<u>8,250</u>	<u>8,250</u>	<u>-</u>
	<u>195,215</u>	<u>88,082</u>	<u>85,727</u>	<u>(2,355)</u>
Charges for service				
Fishing permits	1,200	880	580	(300)
Accident reports	<u>1,400</u>	<u>1,200</u>	<u>1,270</u>	<u>70</u>
	<u>2,600</u>	<u>2,080</u>	<u>1,850</u>	<u>(230)</u>
Other revenues				
Interest income	1,200	1,200	2,077	877
Management fees	135,000	135,000	135,000	-
Other revenues	<u>33,825</u>	<u>25,315</u>	<u>25,900</u>	<u>585</u>
	<u>170,025</u>	<u>161,515</u>	<u>162,977</u>	<u>1,462</u>
Other Financing Sources				
Transfers in, net	94,000	84,000	84,000	-
Sale of asset	-	-	-	-
Note proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Financing Sources	<u>\$ 1,018,190</u>	<u>\$ 892,927</u>	<u>\$ 887,277</u>	<u>\$ (5,650)</u>

CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government				
Salaries	\$ 112,000	\$ 112,250	\$ 110,832	\$ (1,418)
Payroll taxes and employee benefits	31,900	28,220	26,498	(1,722)
KY ASAP grant	10,000	28,900	28,868	(32)
Planning and zoning expenses	5,500	5,620	5,614	(6)
Professional services	10,000	7,300	7,075	(225)
Utilities	8,000	8,200	7,337	(863)
Office supplies	2,500	2,500	3,667	1,167
Insurance	24,200	27,600	27,604	4
Travel/lodging	1,000	-	-	-
Lake Liberty expenses	1,000	-	606	606
Postage	100	700	649	(51)
Dues and subscriptions	250	250	250	-
Parks and recreation	13,000	5,600	5,287	(313)
Education center	-	512	-	(512)
Fireworks	15,500	7,725	15,450	7,725
Other expenses	11,510	10,010	11,528	1,518
	<u>246,460</u>	<u>245,387</u>	<u>251,265</u>	<u>5,878</u>
Public Safety - Police				
Salaries	204,000	201,500	195,127	(6,373)
Payroll taxes and employee benefits	87,600	90,250	83,877	(6,373)
Motor fuels	16,000	13,000	12,299	(701)
Utilities	4,100	3,750	3,728	(22)
Equipment	8,000	9,000	8,419	(581)
Vehicle repairs	5,000	2,000	1,954	(46)
Uniforms	2,100	3,020	3,018	(2)
Insurance	22,000	32,400	32,318	(82)
Travel and lodging	-	-	-	-
Miscellaneous	4,000	4,300	3,953	(347)
	<u>352,800</u>	<u>359,220</u>	<u>344,693</u>	<u>(14,527)</u>
Public Safety - Fire				
Labor	46,400	42,740	42,740	-
Repairs and maintenance	2,000	7,100	7,127	27
Equipment	15,000	11,430	13,122	1,692
Utilities	9,700	8,400	8,367	(33)
Insurance	7,500	9,200	9,177	(23)
Motor fuel	3,000	1,700	1,663	(37)
Miscellaneous	3,000	8,000	7,242	(758)
	<u>86,600</u>	<u>88,570</u>	<u>89,438</u>	<u>868</u>

**CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Three Fiscal Years**

	2014	2015	2016
City's proportion of the net pension liability	0.029640%	0.029640%	0.029579%
City's proportionate share of the net pension liability (asset)	\$ 1,085,805	\$ 962,373	\$ 1,261,770
City's covered employee payroll	\$ 671,150	\$ 676,346	\$ 708,809
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	161.78%	142.29%	178.01%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF LIBERTY, KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Four Fiscal Years**

	2013	2014	2015	2016
Contractually required employer contribution	\$ 80,490	\$ 93,431	\$ 87,992	\$ 88,308
Contributions relative to contractually required employer contribution	<u>\$ 80,490</u>	<u>\$ 93,431</u>	<u>\$ 87,992</u>	<u>\$ 88,308</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 637,796	\$ 671,150	\$ 676,346	\$ 708,809
Employer contributions as a percentage of covered-employee payroll	12.62%	13.92%	13.01%	12.46%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF LIBERTY, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	Cemetery Fund	Municipal Road Aid Fund	Total Governmental Funds
ASSETS			
Cash	\$ 37,382	\$ -	\$ 37,382
Investments	58,670	-	58,670
Receivables, net	-	4,941	4,941
Due from other funds	-	169,530	169,530
 Total assets	 \$ 96,052	 \$ 174,471	 \$ 270,523
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 4,786	\$ -	\$ 4,786
Total liabilities	4,786	-	4,786
 Fund balance	 91,266	 174,471	 265,737
 Total liabilities and fund balances	 \$ 96,052	 \$ 174,471	 \$ 270,523

**CITY OF LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2016**

	Cemetery Fund	Municipal Road Aid Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 43,640	\$ 43,640
Other revenues	5,727	-	5,727
Total revenues	5,727	43,640	49,367
EXPENDITURES			
Current			
General government	2,445	-	2,445
Streets department	-	-	-
Total expenditures	2,445	-	2,445
Excess (deficiency) of revenues over expenditures	3,282	43,640	46,922
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	3,282	43,640	46,922
Fund balances-beginning	87,984	130,831	218,815
Fund balances-ending	\$ 91,266	\$ 174,471	\$ 265,737



**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, 2016, 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 March 10, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2016-001).

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items (2016-001).

City of Liberty, Kentucky's Response to Findings

City of Liberty, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Liberty, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

RFH

RFH, PLLC
Lexington, Kentucky
March 10, 2017

**CITY OF LIBERTY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
for the year ended June 30, 2016**

#2016-001 – Personnel Pay and Classification Plan - Recurring

Cause:

KRS 83A.070 requires the City to fix the compensation of city employees in accordance with a personnel and pay classification plan which shall be adopted by ordinance. The City failed to utilize a personnel pay and classification plan during 2016. In addition, the City's written personnel policies appear to be out dated resulting in various personnel related matters noted in the policy to vary from actual practice.

Effect:

The City failed to properly comply with KRS 83A.070 and the City has failed to have proper documentation on certain personnel related policies.

Recommendation:

We recommend that the City implement a personnel and pay classification plan in accordance with KRS 83A.070. Furthermore, we recommend that the City review current personnel policies and compare the policies to actual practice and update or modify the formal written personnel policy handbook.

Response:

The City of Liberty has been working on and will continue updating the personnel policies and procedures. The updated plan will include a pay classification plan. Once the update is approved, the city will follow all policies within the personnel handbook. The city will also strive to have proper documentation on all personnel related policies.