

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

---

**FINANCIAL STATEMENTS**  
**June 30, 2018**

## 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.....	19-40
Required Supplementary Information	
Budget Information – Major Governmental Funds .....	41-43
Proportionate Share of the Net Pension Liability – Nonhazardous .....	44
Schedule of Pension Contributions – Nonhazardous.....	45
Proportionate Share of the Net OPEB Liability – Nonhazardous .....	46
Schedule of OPEB Contributions – Nonhazardous.....	47
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	49
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> .....	50-51
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	52-53
Schedule of Expenditures of Federal Awards .....	54
Schedule of Findings and Questioned Costs .....	55



## 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 the City of Liberty, Kentucky, as of and for the year ended June 30, 2018, 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 opinions 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 auditor's 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 auditor considers 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, 2018, 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.

**Emphasis of a Matter – Implementation of New GASB Accounting Standards**

As discussed in Notes 8 and 12 to the financial statements, effective July 1, 2017 the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

**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, pension schedules and OPEB schedules on pages 3-10 and 41-47 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019, 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 the effectiveness of the City of Liberty, Kentucky’s 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 the City of Liberty, Kentucky’s internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 13, 2019

## 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, 2018. 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 decreased in the governmental activities and increased in the business-type activities. The net position of the governmental activities decreased by \$65,600, and the net position of the business-type activities increased to \$9,233,142, which was a 10.9 percent increase from the previous year.
- In the City's governmental activities, revenues increased by \$44,828, or 4.3 percent, and expenses increased by 18.3 percent to \$1,196,147. In the business-type activities, revenues increased to \$4,045,521 which is an increase of 44 percent, while expenses increased by 12.3 percent to \$3,073,026.

#### OVERVIEW OF THIS ANNUAL REPORT

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

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

## **GOVERNMENT – WIDE FINANCIAL STATEMENTS**

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

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

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

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

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

## **FUND FINANCIAL STATEMENTS**

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

The City has two kinds of funds:

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

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

## NET POSITION

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

Table A-1

### Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Current and Other Assets	\$ 504,899	\$ 557,723	\$ 2,424,285	\$ 2,196,162	\$ 2,929,184	\$ 2,753,885
Capital Assets	2,142,365	2,106,595	16,618,804	12,757,697	18,761,169	14,864,292
Deferred Outflows	224,189	119,849	459,428	271,935	683,617	391,784
Total Assets	<u>2,871,453</u>	<u>2,784,167</u>	<u>19,502,517</u>	<u>15,225,794</u>	<u>22,373,970</u>	<u>18,009,961</u>
Long-Term Debt Outstanding	663,907	750,684	7,565,745	4,672,822	8,229,652	5,423,506
Net Pension	601,487	474,250	1,175,933	982,924	1,777,420	1,457,174
Net OPEB	206,582	162,037	403,878	316,790	610,460	478,827
Deferred Inflows	26,192	307	51,207	636	77,399	943
Current Liabilities	126,058	84,062	1,072,612	929,575	1,198,670	1,013,637
Total Liabilities	<u>1,624,226</u>	<u>1,471,340</u>	<u>10,269,375</u>	<u>6,902,747</u>	<u>11,893,601</u>	<u>8,374,087</u>
Net Position:						
Net Investment in						
Capital Assets	2,120,800	2,050,670	8,694,033	7,909,701	10,814,833	9,960,371
Restricted	162,297	232,302	178,070	164,250	340,367	396,552
Unrestricted	<u>(1,035,870)</u>	<u>(970,145)</u>	<u>361,039</u>	<u>249,096</u>	<u>(674,831)</u>	<u>(721,049)</u>
Total Net Position	<u>\$ 1,247,227</u>	<u>\$ 1,312,827</u>	<u>\$ 9,233,142</u>	<u>\$ 8,323,047</u>	<u>\$ 10,480,369</u>	<u>\$ 9,635,874</u>

The net position of the City's governmental activities decreased from \$1,312,827 in 2017 to \$1,247,227 in 2018, which is a 5% decrease. The net position of the business-type activities increased from \$8,323,047 to \$9,233,142 in 2018, which is a 10.9 percent increase. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

**NET POSITION, continued**

**Table A-2**

**Condensed Statement of Activities**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2017</u>
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for Service	\$ 1,001	\$ 1,090	\$ 2,891,491	\$ 2,673,419	\$ 2,892,492	\$ 2,674,509
Operating Grants & Contributions	160,579	211,266	11,600	10,000	172,179	221,266
Capital Grants & Contributions	142,920	74,389	1,127,397	154,289	1,270,317	228,678
<u>General Revenue</u>						
Taxes	289,840	279,355	-	-	289,840	279,355
License fees	311,282	277,830	-	-	311,282	277,830
Permits	1,480	5,154	-	-	1,480	5,154
Other Grants and Contributions	2,045	1,440	-	-	2,045	1,440
Investment Earnings	6,118	4,382	15,033	14,414	21,151	18,796
Management fees	135,000	135,000	-	-	135,000	135,000
Miscellaneous	32,987	48,518	-	-	32,987	48,518
<b>Total Revenue</b>	<u>1,083,252</u>	<u>1,038,424</u>	<u>4,045,521</u>	<u>2,852,122</u>	<u>5,128,773</u>	<u>3,890,546</u>
<b>Program Expenses</b>						
General Government	388,671	292,435	-	-	388,671	292,435
Public Safety - Police	509,199	440,622	-	-	509,199	440,622
Public Safety - Fire	106,642	120,618	-	-	106,642	120,618
Streets Department	169,929	135,112	-	-	169,929	135,112
Interest on Long-term Debt	21,706	22,604	-	-	21,706	22,604
Utility	-	-	3,073,026	2,737,202	3,073,026	2,737,202
<b>Total Program Expenses</b>	<u>1,196,147</u>	<u>1,011,391</u>	<u>3,073,026</u>	<u>2,737,202</u>	<u>4,269,173</u>	<u>3,748,593</u>
<b>Other Changes</b>						
Transfers	58,700	25,000	(58,700)	(25,000)	-	-
Gain (loss) on sale of assets	(11,405)	(6,821)	(3,700)	-	(15,105)	(6,821)
<b>Total Other Changes</b>	<u>47,295</u>	<u>18,179</u>	<u>(62,400)</u>	<u>(25,000)</u>	<u>(15,105)</u>	<u>(6,821)</u>
<b>Change In Net Position</b>	<u>\$ (65,600)</u>	<u>\$ 45,212</u>	<u>\$ 910,095</u>	<u>\$ 89,920</u>	<u>\$ 844,495</u>	<u>\$ 135,132</u>

The City's total revenue increased by 31.8 percent and the total cost of all programs reflected an increase of 13.9 percent. On the following page is a more in-depth description of the revenues and expenses of the governmental and business-type activities.



**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 258,062	\$ 1,422,044	\$ 1,680,106
Investments	127,803	740,015	867,818
Receivables, net	125,800	216,911	342,711
Grants receivable	-	28,335	28,335
Interest receivable	45	2,169	2,214
Prepaid assets	8,000	-	8,000
Internal balances	(14,811)	14,811	-
Total current assets	<u>504,899</u>	<u>2,424,285</u>	<u>2,929,184</u>
<b>Noncurrent assets</b>			
<b>Restricted assets</b>			
Cash	-	178,070	178,070
<b>Capital assets</b>			
Construction in progress	-	5,156,544	5,156,544
Land and improvements	854,622	104,272	958,894
Utility systems, net	-	11,179,918	11,179,918
Depreciable buildings, property, and equipment, net	1,287,743	-	1,287,743
Total noncurrent assets	<u>2,142,365</u>	<u>16,618,804</u>	<u>18,761,169</u>
<b>Total assets</b>	<u>2,647,264</u>	<u>19,043,089</u>	<u>21,690,353</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	164,413	321,434	485,847
Deferred outflows - OPEB	59,776	116,866	176,642
Defeasance on refunding	-	21,128	21,128
Total deferred outflows of resources	<u>224,189</u>	<u>459,428</u>	<u>683,617</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 2,871,453</u>	<u>\$ 19,502,517</u>	<u>\$ 22,373,970</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 48,660	\$ 79,701	\$ 128,361
Accrued liabilities	19,237	206,354	225,591
Customer deposits	-	171,278	171,278
Construction payable	-	153,081	153,081
Retainage payable	-	245,133	245,133
Accrued interest payable	-	14,981	14,981
Current portion of long-term obligations	58,161	202,084	260,245
Total current liabilities	<u>126,058</u>	<u>1,072,612</u>	<u>1,198,670</u>
<b>Noncurrent liabilities</b>			
Noncurrent portion of long-term obligations	663,907	7,565,745	8,229,652
Net pension liability	601,487	1,175,933	1,777,420
Net OPEB liability	206,582	403,878	610,460
Total noncurrent liabilities	<u>1,471,976</u>	<u>9,145,556</u>	<u>10,617,532</u>
<b>Total liabilities</b>	<u>1,598,034</u>	<u>10,218,168</u>	<u>11,816,202</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	15,376	30,061	45,437
Deferred inflows - OPEB	10,816	21,146	31,962
Total deferred inflows of resources	<u>26,192</u>	<u>51,207</u>	<u>77,399</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,120,800	8,694,033	10,814,833
Restricted for other purposes	162,297	178,070	340,367
Unrestricted	(1,035,870)	361,039	(674,831)
Total net position	<u>1,247,227</u>	<u>9,233,142</u>	<u>10,480,369</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,871,453</u>	<u>\$ 19,502,517</u>	<u>\$ 22,373,970</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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 388,671	\$ 3,600	\$ 94,236	96,000	\$ (194,835)	\$ -	\$ (194,835)
Public safety-Police	509,199	1,001	23,836	35,920	(448,442)	-	(448,442)
Public safety-Fire	106,642	-	-	11,000	(95,642)	-	(95,642)
Street department	169,929	-	42,507	-	(127,422)	-	(127,422)
Interest on long-term debt	21,706	-	-	-	(21,706)	-	(21,706)
Total governmental activities	<u>1,196,147</u>	<u>4,601</u>	<u>160,579</u>	<u>142,920</u>	<u>(888,047)</u>	<u>-</u>	<u>(888,047)</u>
<b>Business-type activities</b>							
Utility	<u>3,073,026</u>	<u>2,891,491</u>	<u>11,600</u>	<u>1,127,397</u>	<u>-</u>	<u>957,462</u>	<u>957,462</u>
Total business-type activities	<u>3,073,026</u>	<u>2,891,491</u>	<u>11,600</u>	<u>1,127,397</u>	<u>-</u>	<u>957,462</u>	<u>957,462</u>
<b>Total primary government</b>	<u>\$ 4,269,173</u>	<u>\$ 2,896,092</u>	<u>\$ 172,179</u>	<u>\$ 1,270,317</u>	<u>(888,047)</u>	<u>957,462</u>	<u>69,415</u>

**General revenues**

Taxes			
Property taxes, levied for general purposes	289,840	-	289,840
License fee			
Franchise	107,865	-	107,865
Insurance premiums	203,417	-	203,417
Permits			
Building	1,480	-	1,480
Fines and forfeitures	1,545	-	1,545
Grants and contributions			
not restricted to specific programs	2,045	-	2,045
Investment earnings	6,118	15,033	21,151
Management fees	135,000	-	135,000
Miscellaneous	27,842	-	27,842
Total general revenues	<u>775,152</u>	<u>15,033</u>	<u>790,185</u>
(Loss) on sale of assets	(11,405)	(3,700)	(15,105)
Transfers	<u>58,700</u>	<u>(58,700)</u>	<u>-</u>
Total general revenues, (loss) on sale of assets and transfers	<u>822,447</u>	<u>(47,367)</u>	<u>775,080</u>
<b>Change in net position</b>	<u>(65,600)</u>	<u>910,095</u>	<u>844,495</u>
Net position-beginning, as restated	<u>1,312,827</u>	<u>8,323,047</u>	<u>9,635,874</u>
<b>NET POSITION-ENDING</b>	<u>\$ 1,247,227</u>	<u>\$ 9,233,142</u>	<u>\$ 10,480,369</u>

The accompanying notes are an integral  
part of the financial statements

**CITY OF LIBERTY, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 225,684	\$ 32,378	\$ 258,062
Investments	70,441	57,362	127,803
Receivables, net	120,687	5,113	125,800
Interest receivable	45	-	45
Prepaid assets	8,000	-	8,000
Due from other funds	4,495	72,230	76,725
 Total assets	\$ 429,352	\$ 167,083	\$ 596,435
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 48,660	\$ -	\$ 48,660
Accrued liabilities	19,237	-	19,237
Due to other funds	86,750	4,786	91,536
 Total liabilities	154,647	4,786	159,433
 <b>Fund balances</b>			
Nonspendable	8,000	-	8,000
Restricted	-	162,297	162,297
Committed	-	-	-
Unassigned	266,705	-	266,705
 Total fund balances	274,705	162,297	437,002
 Total liabilities and fund balances	\$ 429,352	\$ 167,083	\$ 596,435

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

Fund balances represented above	\$ 437,002
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,142,365
Net deferred inflows/outflows related to the long-term net pension and OPEB liability are not reported in the funds	197,997
Long-term liabilities, including bonds payable, net pension liability, and OPEB liability are not due and payable in the current period and therefore are not reported in the funds	(1,530,137)
 Net position of governmental activities	 \$ 1,247,227

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, 2018**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 289,840	\$ -	\$ 289,840
Licenses and permits	312,762	-	312,762
Fines and forfeits	1,545	-	1,545
Intergovernmental	263,037	42,507	305,544
Charges for service	1,001	3,600	4,601
Other revenues	168,479	481	168,960
	<u>1,036,664</u>	<u>46,588</u>	<u>1,083,252</u>
<b>Total revenues</b>			
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	289,538	9,656	299,194
Public safety-Police	415,321	-	415,321
Public safety-Fire	77,012	-	77,012
Streets department	62,992	106,937	169,929
Capital outlay	166,833	-	166,833
Debt service	106,405	-	106,405
	<u>1,118,101</u>	<u>116,593</u>	<u>1,234,694</u>
<b>Total expenditures</b>			
Excess (deficiency) of revenues over expenditures	<u>(81,437)</u>	<u>(70,005)</u>	<u>(151,442)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	58,700	-	58,700
	<u>58,700</u>	<u>-</u>	<u>58,700</u>
<b>Total other financing sources and uses</b>			
<b>Net change in fund balances</b>	(22,737)	(70,005)	(92,742)
Fund balances-beginning, as restated	297,442	232,302	529,744
	<u>297,442</u>	<u>232,302</u>	<u>529,744</u>
<b>FUND BALANCES-ENDING</b>	<u>\$ 274,705</u>	<u>\$ 162,297</u>	<u>\$ 437,002</u>
<b>Reconciliation to government-wide change in net position:</b>			
Net change in fund balances			\$ (92,742)
add: capital outlay expenditures capitalized			166,833
add: debt service expenditures			106,405
less: loss on disposal of capital assets			(11,405)
less: depreciation on governmental activities capital assets			(119,658)
less: change in net pension liability			(84,611)
less: change in net OPEB liability			(8,716)
less: interest on long term debt			(21,706)
			<u>(65,600)</u>
<b>Change in net position governmental activities</b>			<u>\$ (65,600)</u>

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

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2018**

	Business-type Activities				2018 Totals
	Water Fund	Sewer Fund	Gas Fund	Garbage Fund	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash	\$ 831,497	\$ 144,568	\$ 300,086	\$ 145,893	\$ 1,422,044
Investments	56,335	-	676,283	7,397	740,015
Receivables (net)	92,235	48,678	44,749	31,249	216,911
Grants receivable	-	28,335	-	-	28,335
Interest receivable	39	-	2,130	-	2,169
Due from other funds	12,418	-	9,842	1,000	23,260
Total current assets	<u>992,524</u>	<u>221,581</u>	<u>1,033,090</u>	<u>185,539</u>	<u>2,432,734</u>
<b>Noncurrent assets</b>					
<b>Restricted assets</b>					
Cash	106,103	71,967	-	-	178,070
<b>Capital assets:</b>					
Construction in progress	18,000	5,138,544	-	-	5,156,544
Land	-	66,872	37,400	-	104,272
Depreciable utility fixed assets	13,817,187	8,748,455	647,016	276,206	23,488,864
Less accumulated depreciation	<u>(6,256,745)</u>	<u>(5,326,168)</u>	<u>(471,505)</u>	<u>(254,528)</u>	<u>(12,308,946)</u>
Total noncurrent assets	<u>7,684,545</u>	<u>8,699,670</u>	<u>212,911</u>	<u>21,678</u>	<u>16,618,804</u>
Total assets	<u>8,677,069</u>	<u>8,921,251</u>	<u>1,246,001</u>	<u>207,217</u>	<u>19,051,538</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows - pension	111,537	45,439	123,524	40,934	321,434
Deferred outflows - OPEB	40,552	16,521	44,910	14,883	116,866
Defeasance on refunding	<u>13,372</u>	<u>7,756</u>	<u>-</u>	<u>-</u>	<u>21,128</u>
Total deferred outflows of resources	<u>165,461</u>	<u>69,716</u>	<u>168,434</u>	<u>55,817</u>	<u>459,428</u>
Total assets and deferred outflows of resources	<u>\$ 8,842,530</u>	<u>\$ 8,990,967</u>	<u>\$ 1,414,435</u>	<u>\$ 263,034</u>	<u>\$ 19,510,966</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 33,040	\$ 16,429	\$ 10,560	\$ 19,672	\$ 79,701
Accrued liabilities	28,075	2,533	173,470	2,276	206,354
Due to other funds	8,449	-	-	-	8,449
Customer deposits	83,741	-	87,537	-	171,278
Construction payable	-	153,081	-	-	153,081
Retainage payable	-	245,133	-	-	245,133
Accrued interest payable	6,774	8,207	-	-	14,981
Current portion of long-term obligations	<u>127,899</u>	<u>74,185</u>	<u>-</u>	<u>-</u>	<u>202,084</u>
Total current liabilities	<u>287,978</u>	<u>499,568</u>	<u>271,567</u>	<u>21,948</u>	<u>1,081,061</u>
<b>Noncurrent liabilities</b>					
Noncurrent portion of long-term obligations	2,588,297	4,977,448	-	-	7,565,745
Net pension liability	408,045	166,234	451,902	149,752	1,175,933
Net OPEB liability	<u>140,144</u>	<u>57,094</u>	<u>155,207</u>	<u>51,433</u>	<u>403,878</u>
Total noncurrent liabilities	<u>3,136,486</u>	<u>5,200,776</u>	<u>607,109</u>	<u>201,185</u>	<u>9,145,556</u>
Total liabilities	<u>3,424,464</u>	<u>5,700,344</u>	<u>878,676</u>	<u>223,133</u>	<u>10,226,617</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows - pension	10,431	4,250	11,552	3,828	30,061
Deferred inflows - OPEB	<u>7,338</u>	<u>2,989</u>	<u>8,126</u>	<u>2,693</u>	<u>21,146</u>
Total deferred inflows of resources	<u>17,769</u>	<u>7,239</u>	<u>19,678</u>	<u>6,521</u>	<u>51,207</u>
<b>NET POSITION</b>					
Net investment in capital assets	4,875,618	3,583,826	212,911	21,678	8,694,033
Restricted for debt service	106,103	71,967	-	-	178,070
Unrestricted	<u>418,576</u>	<u>(372,409)</u>	<u>303,170</u>	<u>11,702</u>	<u>361,039</u>
Total net position	<u>5,400,297</u>	<u>3,283,384</u>	<u>516,081</u>	<u>33,380</u>	<u>9,233,142</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,842,530</u>	<u>\$ 8,990,967</u>	<u>\$ 1,414,435</u>	<u>\$ 263,034</u>	<u>\$ 19,510,966</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, 2018**

	<b>Business-type Activities</b>				<b>2018 Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	
<b>Operating revenues</b>					
Charges for services	\$ 1,107,366	\$ 458,705	\$ 949,806	\$ 375,614	\$ 2,891,491
Other revenues	-	10,000	-	1,600	11,600
<b>Total operating revenues</b>	<u>1,107,366</u>	<u>468,705</u>	<u>949,806</u>	<u>377,214</u>	<u>2,903,091</u>
<b>Operating expenses</b>					
Salaries and wages	180,218	70,971	200,680	65,136	517,005
Casual labor	3,878	3,878	8,039	8,765	24,560
Gas purchases	-	-	362,810	-	362,810
Payroll taxes	13,593	5,428	14,791	4,892	38,704
Retirement	55,459	75,426	66,404	43,348	240,637
Uniforms and laundry	3,431	1,004	4,001	2,697	11,133
Maintenance and repairs	220,506	81,244	46,740	26,694	375,184
Truck expense	-	-	-	11,977	11,977
Motor fuel	7,307	787	6,653	15,383	30,130
Office expense and postage	3,771	1,913	1,325	2,842	9,851
Legal and professional	20,485	20,553	7,074	7,074	55,186
Utilities	70,420	46,831	9,610	-	126,861
Insurance	66,903	39,690	57,481	37,293	201,367
Dump expense	-	-	-	136,242	136,242
Pretreatment expenses	-	17,928	-	-	17,928
Management fees	32,714	10,286	66,000	26,000	135,000
Training and certifications	1,548	-	6,135	-	7,683
Other expense	14,015	4,514	5,176	6,852	30,557
Depreciation	293,896	275,296	11,227	16,644	597,063
<b>Total operating expenses</b>	<u>988,144</u>	<u>655,749</u>	<u>874,146</u>	<u>411,839</u>	<u>2,929,878</u>
Operating income (loss)	119,222	(187,044)	75,660	(34,625)	(26,787)
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	4,455	1,932	8,375	271	15,033
Interest expense	(90,598)	(52,550)	-	-	(143,148)
Gain (loss) on sale of capital assets	(925)	(925)	(925)	(925)	(3,700)
Income (loss) before capital contributions and transfers	<u>32,154</u>	<u>(238,587)</u>	<u>83,110</u>	<u>(35,279)</u>	<u>(158,602)</u>
<b>Capital contributions and transfers</b>					
KIA loan forgiveness	-	343,892	-	-	343,892
Tap fees	6,242	-	2,034	-	8,276
Grant revenues	-	775,229	-	-	775,229
Transfers in (out)	-	-	(58,700)	-	(58,700)
<b>Change in net position</b>	<u>38,396</u>	<u>880,534</u>	<u>26,444</u>	<u>(35,279)</u>	<u>910,095</u>
Total net position-beginning, as restated	<u>5,361,901</u>	<u>2,402,850</u>	<u>489,637</u>	<u>68,659</u>	<u>8,323,047</u>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 5,400,297</u>	<u>\$ 3,283,384</u>	<u>\$ 516,081</u>	<u>\$ 33,380</u>	<u>\$ 9,233,142</u>

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

**CITY OF LIBERTY, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
for the year ended June 30, 2018**

	<b>Business-type Activities</b>				<b>2018 Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Gas Fund</b>	<b>Garbage Fund</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 1,120,763	\$ 460,472	\$ 962,855	\$ 377,385	\$ 2,921,475
Payments to suppliers	(389,287)	(208,439)	(513,958)	(241,360)	(1,353,044)
Payments for interfund services (payment in lieu of taxes)	(32,714)	(10,286)	(66,000)	(26,000)	(135,000)
Payments for employee services and benefits	(227,955)	(95,486)	(117,870)	(91,871)	(533,182)
<b>Net cash provided by operating activities</b>	<b>470,807</b>	<b>146,261</b>	<b>265,027</b>	<b>18,154</b>	<b>900,249</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Bond principal payment	(124,734)	(72,349)	-	-	(197,083)
Capital contributions	6,242	855,279	2,034	-	863,555
Proceeds from long-term obligations	-	3,438,899	-	-	3,438,899
Purchases of capital assets	(25,738)	(4,277,192)	(1,622)	(1,624)	(4,306,176)
Interest paid on capital debt	(90,312)	(66,703)	-	-	(157,015)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(234,542)</b>	<b>(122,066)</b>	<b>412</b>	<b>(1,624)</b>	<b>(357,820)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Receipts (payments) on interfund loans	8,449	-	(8,449)	-	-
Net operating transfers in (out)	-	-	(58,700)	-	(58,700)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>8,449</b>	<b>-</b>	<b>(67,149)</b>	<b>-</b>	<b>(58,700)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	4,455	1,932	8,486	271	15,144
Purchase of investments	(589)	-	(8,486)	(73)	(9,148)
<b>Net cash provided by investing activities</b>	<b>3,866</b>	<b>1,932</b>	<b>-</b>	<b>198</b>	<b>5,996</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>248,580</b>	<b>26,127</b>	<b>198,290</b>	<b>16,728</b>	<b>489,725</b>
Cash and cash equivalents-beginning of the year	689,020	190,408	101,796	129,165	1,110,389
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<b>\$ 937,600</b>	<b>\$ 216,535</b>	<b>\$ 300,086</b>	<b>\$ 145,893</b>	<b>\$ 1,600,114</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 119,222	\$ (187,044)	\$ 75,660	\$ (34,625)	\$ (26,787)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	293,896	275,296	11,227	16,644	597,063
Net pension adjustment	15,457	59,130	22,102	28,668	125,357
Net OPEB adjustment	5,913	2,409	6,548	2,170	17,040
Change in assets and liabilities					
Receivables, net	13,397	(8,233)	7,183	171	12,518
Accounts and other payables	19,099	6,025	(7,223)	5,694	23,595
Accrued expenses	3,823	(1,322)	149,530	(568)	151,463
<b>Net cash provided by operating activities</b>	<b>\$ 470,807</b>	<b>\$ 146,261</b>	<b>\$ 265,027</b>	<b>\$ 18,154</b>	<b>\$ 900,249</b>
<b>Supplemental disclosures of cash flow information:</b>					
Noncash capital and related financing activities:					
Payables for capital items, net	\$ -	\$ 398,214	\$ -	\$ -	\$ -

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

**CITY OF LIBERTY, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2018**

---

	<b>Restaurant Tax Agency Fund</b>
	<u>                    </u>
<b>ASSETS</b>	
Cash	\$ 21,432
Receivables, net	<u>21,058</u>
 Total assets	 <u>\$ 42,490</u>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Due to Tourism Commission	\$ <u>42,490</u>
 Total liabilities	 <u>\$ 42,490</u>



**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

---

**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 balance/net position, revenues and expenditures or expenses.

Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon the 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, 2018**

---

**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, 2018**

---

**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 financial 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. During the year, the City under-budgeted expenditures in the General Fund by \$30,638.

**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, 2018**

**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, 2018, fund balances are composed of the following:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Nonspendable – prepaid expenses	\$ 8,000	\$ -	\$ 8,000
Restricted:			
Road surface repairs	-	77,343	77,343
Cemetery fund	-	84,954	84,954
Unassigned	<u>266,705</u>	<u>-</u>	<u>266,705</u>
Total fund balances	<u>\$ 274,705</u>	<u>\$ 162,297</u>	<u>\$ 437,002</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

---

**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. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

---

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

**L. 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 are considered cash for purposes of the Statement of Cash Flows.

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

The City has evaluated and considered the need to recognize or disclose subsequent events through March 13, 2019, 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, 2018, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

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

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

Interest Rate Risk

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

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

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

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018 the City held investments in the following municipal bonds. Bond ratings were not available for disclosure.

**Municipal Bonds**

American Municipal Power Inc OH Series A  
Clark County Nevada Las Vegas Convention  
Colorado State Board of Governors  
Dodge County Nebraska School District 001  
Florida State Department Management Services  
Itasca County Minnesota Nursing Home  
Maricopa County Arizona University  
Massachusetts Health and Education Northeast University  
Minnesota Financial School Loan Revolving Fund  
New Hampshire State Federal Highway Grant Anticipation  
Santa Clara Vy California Police Department Series D  
South Correctional Entity  
Tustin California University School District  
Walnut California Energy Center  
Washington County School District

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, including investments and fiduciary funds, totaled \$2,747,426 and the bank balances totaled \$2,806,347. As of June 30, 2018, \$2,687,887 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, 2018, 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	\$ 648,605	\$ -	\$ 648,605	\$ -	\$ -
Money market funds	3,592	3,592	-	-	-
Mutual funds	117,195	117,195	-	-	-
Municipal bonds	<u>98,426</u>	<u>-</u>	<u>15,171</u>	<u>38,555</u>	<u>44,700</u>
	<u>\$ 867,818</u>	<u>\$ 120,787</u>	<u>\$ 663,776</u>	<u>\$ 38,555</u>	<u>\$ 44,700</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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, 2018:

Investments	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	\$ 3,592	\$ 3,592	\$ -	\$ -
Mutual funds	117,195	117,195	-	-
Municipal bonds	98,426	-	98,426	-
Corporate bonds	-	-	-	-
	\$ 219,213	\$ 120,787	\$ 98,426	\$ -

**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:

	Governmental				Business- Type Activities Total
	General Fund	Nonmajor Funds	Funds Total		
Governmental Funds:					
Taxes	\$ 12,760	\$ -	\$ 12,760		
Licenses, permits, billings	72,511	-	72,511		
Intergovernmental	47,088	5,113	52,201		
Gross receivables	132,359	5,113	137,472		
Less: allowance for uncollectible	(11,672)	-	(11,672)		
Net receivables	\$ 120,687	\$ 5,113	\$ 125,800		
Business-type Activities:		Sewer Fund	Gas Fund	Garbage Fund	
Customer	\$ 111,734	\$ 58,363	\$ 102,066	\$ 53,748	\$ 325,911
Other	-	14,814	-	-	14,814
Less: allowance for uncollectible	(19,499)	(24,499)	(57,317)	(22,499)	(123,814)
Net receivables	\$ 92,235	\$ 48,678	\$ 44,749	\$ 31,249	\$ 216,911



**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**4. CAPITAL ASSETS**

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

	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2018</b>
<b>Governmental activities:</b>				
Capital assets not depreciated:				
Land	\$ 757,851	\$ 96,771	\$ -	\$ 854,622
Capital assets that are depreciated:				
Land Improvements	751,571	3,749	-	755,320
Buildings and improvements	1,000,706	2,716	-	1,003,422
Vehicles	758,651	51,624	-	810,275
Equipment	162,039	11,973	(31,198)	142,814
Totals	<u>2,672,967</u>	<u>70,062</u>	<u>(31,198)</u>	<u>2,711,831</u>
Total capital assets	<u>3,430,818</u>	<u>166,833</u>	<u>(31,198)</u>	<u>3,566,453</u>
Less accumulated depreciation:				
Land improvements	240,803	38,228	-	279,031
Buildings and improvements	434,908	29,393	-	464,301
Vehicles	550,830	38,018	-	588,848
Equipment	97,682	14,019	(19,793)	91,908
Totals	<u>1,324,223</u>	<u>119,658</u>	<u>(19,793)</u>	<u>1,424,088</u>
Capital assets, net	<u>\$ 2,106,595</u>	<u>\$ 47,175</u>	<u>\$ (11,405)</u>	<u>\$ 2,142,365</u>
<b>Business-type activities</b>				
Capital assets not depreciated:				
Land	\$ 104,272	\$ -	\$ -	\$ 104,272
Construction in progress	921,529	4,235,015	-	5,156,544
Totals	<u>1,025,801</u>	<u>4,235,015</u>	<u>-</u>	<u>5,260,816</u>
Capital assets that are depreciated:				
Water plant	13,803,163	25,738	(11,714)	13,817,187
Sewer plant	8,730,156	19,799	(1,500)	8,748,455
Gas lines & equipment	646,893	1,623	(1,500)	647,016
Garbage equipment	276,082	1,624	(1,500)	276,206
Totals	<u>23,456,294</u>	<u>48,784</u>	<u>(16,214)</u>	<u>23,488,864</u>
Total capital assets	<u>24,482,095</u>	<u>4,283,799</u>	<u>(16,214)</u>	<u>28,749,680</u>
Less accumulated depreciation				
	<u>11,724,398</u>	<u>597,063</u>	<u>(12,515)</u>	<u>12,308,946</u>
Capital assets, net	<u>\$ 12,757,697</u>	<u>\$ 3,686,736</u>	<u>\$ (3,699)</u>	<u>\$ 16,440,734</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**4. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 65,798
Police	24,230
Fire	<u>29,630</u>
Total depreciation expense	<u>\$ 119,658</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. The balance in the debt service reserve is \$178,070 at June 30, 2018.

During 2017, the City began construction on a project to install a one-million-gallon wet weather flow equalization basin, replace various wastewater treatment plant components and make improvements to the laboratory and office facilities of the waste water treatment plant. The project is estimated to cost \$5.66 million and is being funded with a \$1 million Community Development Block Grant and a \$4.6 million Kentucky Infrastructure Authority federally assisted wastewater revolving loan. For the year ended June 30, 2018 the City received \$3,438,899 in loan funds from the Kentucky Infrastructure Authority. As part of the loan agreement, the District is entitled to principal forgiveness in the amount of 10%. Due to this provision, the City has recognized \$343,892 of principal forgiveness for the year ended June 30, 2018. The loan bears interest at .75% with a loan term of 30 years with principal payments scheduled to begin at the end of construction, which completion of the project is expected in April 2019. As of June 30, 2018 the loan had a balance of \$3,476,162.

The following is a summary of the revenue bonds outstanding for the year ended June 30, 2018:

<b>Revenue Bonds</b>	<b>Total Outstanding June 30, 2018</b>	<b>Sewer Fund Allocation June 30, 2018</b>	<b>Water Fund Allocation June 30, 2018</b>
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>\$ 4,291,667</u>	<u>\$ 1,575,471</u>	<u>\$ 2,716,196</u>

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

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

**BUSINESS - TYPE ACTIVITIES (Continued)**

The following is a summary of the changes in long-term debt for the year ended June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
W&S Bond 2013A	\$ 4,488,750	\$ -	\$ (197,083)	\$ 4,291,667
KIA Loan - WWTP	<u>381,155</u>	<u>3,438,899</u>	<u>(343,892)</u>	<u>3,476,162</u>
	<u>\$ 4,869,905</u>	<u>\$ 3,438,899</u>	<u>\$ (540,975)</u>	<u>\$ 7,767,829</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2018, are as follows:

June 30	Principal	Interest	Total
2019	\$ 202,084	\$ 138,257	\$ 340,341
2020	207,082	133,540	340,622
2021	212,083	128,204	340,287
2022	217,083	122,371	339,454
2023	222,083	116,402	338,485
2024-2028	1,137,500	480,308	1,617,808
2029-2033	967,917	304,650	1,272,567
2034-2038	871,667	142,113	1,013,780
2039-2040	<u>254,168</u>	<u>13,765</u>	<u>267,933</u>
	<u>4,291,667</u>	<u>1,579,610</u>	<u>5,871,277</u>
KIA Revolving Loan	<u>3,476,162</u>		
	<u>\$ 7,767,829</u>		

The Water and Sewer Funds are in compliance with all significant limitations and restrictions contained in the bond indenture. As of June 30, 2018, the amount reserved for bond principal and interest payments was \$178,070. Additionally, the City has designated \$49,453 for the sewer fund and \$265,943 for the water fund as a depreciation reserve.

**GOVERNMENTAL ACTIVITIES**

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 eleven 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, 2018 was \$38,201. The obligation is reported as general long-term debt. The loan was paid in full in August 2018.

During fiscal year 2015, the City of Liberty entered into a fifteen year 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.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**GOVERNMENTAL ACTIVITIES (Continued)**

The following is a summary of changes in general long-term debt for the year ended June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
Casey County Bank - 2014	\$ 55,925	\$ -	\$ (34,360)	\$ 21,565
Casey County Bank - 2015	<u>750,842</u>	<u>-</u>	<u>(50,339)</u>	<u>700,503</u>
	<u>\$ 806,767</u>	<u>\$ -</u>	<u>\$ (84,699)</u>	<u>\$ 722,068</u>

The following is a summary of debt service requirements as of June 30, 2018:

June 30,	Principal	Interest	Total
2019	\$ 58,161	\$ 18,441	\$ 76,602
2020	59,723	16,879	76,602
2021	60,436	15,273	75,709
2022	54,885	13,659	68,544
2023	56,258	12,287	68,545
2024-2028	303,101	39,621	342,722
2029-2030	<u>129,504</u>	<u>4,975</u>	<u>134,479</u>
TOTAL	<u>\$ 722,068</u>	<u>\$ 121,135</u>	<u>\$ 843,203</u>

**6. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2018 were levied in October 2017 on the assessed valuation of property located in Casey County as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes, are as follows:

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

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

**7. RETIREMENT PLAN**

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

**CITY OF LIBERTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

---

**7. RETIREMENT PLAN (Continued)**

*Contributions* – For the year ended June 30, 2018, plan members are required to contribute 5% 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 are 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications. 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% of wages to their own account for non-hazardous job classifications. Plan members also contribute 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. Each member's account is credited with a 4% employer pay credit for non-hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2018, the City contributed \$148,333, or 100% of the required contribution. The contribution was allocated \$111,984 to the CERS pension fund and \$36,349 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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ Not available

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**7. RETIREMENT PLAN (Continued)**

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, 2018, the City reported a liability of \$1,777,420 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017 the City's proportionate share was .0303 percent, which was an increase of .0005 percent from it's proportion at June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$311,945. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 2,206	\$ 45,118
Changes of assumptions	327,981	-
Net difference between projected and actual earnings on Plan investments	21,984	-
Changes in proportion and differences between City contributions and proportionate share of contributions	21,692	319
City contributions subsequent to the measurement date	<u>111,984</u>	<u>-</u>
Total	<u>\$ 485,847</u>	<u>\$ 45,437</u>

The \$111,984 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, 2019. 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,**

2019	\$ 145,279
2020	\$ 142,694
2021	\$ 63,276
2022	\$ (22,823)

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**7. RETIREMENT PLAN (Continued)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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, 2017 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.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
U.S. Equity	25.6%	11.27%
Non-U.S. Equity	25.2%	2.83%
Fixed Income	14.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.2%	3.65%
	100%	

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**7. RETIREMENT PLAN (Continued)**

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 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 26-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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<u>Discount rate</u>	<u>City's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 2,241,712
Current discount rate	6.25%	\$ 1,777,420
1% increase	7.25%	\$ 1,389,045

*Payable to the Pension Plan* – At June 30, 2018, the City reported a payable of \$13,985 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 7, the City of Liberty participates in the County Employees' Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ending June 30, 2018, the employer's contribution was 4.70% to the insurance trust 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 are 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.



**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

---

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

For the year ended June 30, 2018, the City contributed \$36,349, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

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

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability of \$610,460.

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as .0303 percent.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

For the year ended June 30, 2018, the City recognized OPEB expense of \$69,564. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 1,695
Changes of assumptions	132,832	-
Net difference between projected and actual earnings on Plan investments	-	28,850
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,417
City contributions subsequent to the measurement date	<u>43,810</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 176,642</u></b>	<b><u>\$ 31,962</u></b>

The \$43,810 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 OPEB liability in the year ending June 30, 2019. This includes an adjustment of \$7,461 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending June 30,**

2019	\$	17,356
2020	\$	17,356
2021	\$	17,356
2022	\$	17,356
2023	\$	24,569
2024	\$	6,877

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous classifications. 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 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

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

	<b>Discount rate</b>		<b>Proportionate share of net OPEB liability</b>
1% decrease	4.84%	\$	776,784
Current discount rate	5.84%	\$	610,460
1% increase	6.84%	\$	472,063

*Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		<b>Proportionate share of net OPEB liability</b>
1% decrease	\$	468,259
Current trend rate	\$	610,460
1% increase	\$	795,327

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

**9. 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**10. CONCENTRATIONS**

The City has a concentration of revenue in the Water Fund and the Gas Fund. One customer generated approximately 62% of the Water Fund's service revenue and 59% of the accounts receivable at June 30, 2018. In addition, one industrial company generated approximately 30% of gas service charges and comprised 47% of the accounts receivable balance reported in the Gas Fund at June 30, 2018.

**11. CONTINGENT LIABILITY**

The City has booked an estimated liability of \$143,940, which is included in accrued liabilities on the financial statements, for amounts the City was potentially underbilled by their gas supplier. The amount accrued is an estimate. The actual amount the City owes its gas supplier is unknown.

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**12. RESTATEMENT OF NET POSITION**

Implementation of new accounting standard GASB Statement No. 75

During 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position.

General Fund Accounts Receivable

Beginning net position has been restated to record accounts receivable for electric franchise revenue.

Sewer Fund Loan Forgiveness

As explained in Note 5 to the financial statements, the City obtained a KIA revolving loan to fund the waste water treatment plant project. As part of the agreement, 10% of the loan is forgiven upon disbursement of the funds. In 2017, loan funds were received but no forgiveness was recorded. Beginning net position has been restated to accurately reflect principal forgiveness from fiscal year 2017.

As described above, beginning net position and fund balance has been restated as follows:

**Governmental activities**

Net position, at beginning of year	\$	1,447,234
Beginning net OPEB liability		(148,907)
Electric franchise receivable		<u>14,500</u>
Net position, at beginning of year, as restated	\$	<u>1,312,827</u>

**Business-type activities**

<b>Water Fund</b>		
Net position, at beginning of year	\$	5,462,918
Beginning net OPEB liability		<u>(101,017)</u>
Net position, at beginning of year, as restated	\$	<u>5,361,901</u>
<b>Sewer Fund</b>		
Net position, at beginning of year	\$	2,401,653
Beginning net OPEB liability		(41,154)
KIA loan forgiveness		<u>42,351</u>
Net position, at beginning of year, as restated	\$	<u>2,402,850</u>

**CITY OF LIBERTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

---

**12. RESTATEMENT OF NET POSITION (Continued)**

**Business-type activities (Continued)**

Gas Fund

Net position, at beginning of year	\$ 601,512
Beginning net OPEB liability	<u>(111,875)</u>

Net position, at beginning of year, as restated	<u>\$ 489,637</u>
---	-------------------

Garbage Fund

Net position, at beginning of year	\$ 105,732
Beginning net OPEB liability	<u>(37,073)</u>

Net position, at beginning of year, as restated	<u>\$ 68,659</u>
---	------------------

Total business-type activities, net position, as restated	<u>\$ 8,323,047</u>
---	---------------------

**General fund**

Fund balance, at beginning of year	\$ 282,942
Electric franchise receivable	<u>14,500</u>

Fund balance, at beginning of year, as restated	<u>\$ 297,442</u>
---	-------------------

**13. SUBSEQUENT EVENT**

On September 7, 2018 the City entered into a capital lease agreement for a new garbage truck. The lease agreement calls for principal and interest payments to be paid over a term of 8 years. The principal portion of the lease is \$320,049 and it bears interest at a rate of 4.43%.

## SUPPLEMENTARY INFORMATION

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2018**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Taxes</b>				
Property and motor vehicle taxes	\$ 271,000	\$ 273,700	\$ 278,994	\$ 5,294
Payment in lieu of taxes	11,000	10,000	10,846	846
	<u>282,000</u>	<u>283,700</u>	<u>289,840</u>	<u>6,140</u>
<b>Licenses and permits</b>				
Franchise fees	66,000	102,000	107,865	5,865
Insurance premiums	195,000	202,500	203,417	917
Building permits	1,500	1,000	1,480	480
	<u>262,500</u>	<u>305,500</u>	<u>312,762</u>	<u>7,262</u>
<b>Fines and forfeitures</b>				
Parking tickets/arrest fees	1,100	1,600	1,545	(55)
	<u>1,100</u>	<u>1,600</u>	<u>1,545</u>	<u>(55)</u>
<b>Intergovernmental</b>				
Base court revenue	8,200	6,700	7,131	431
Police incentive pay	23,000	23,800	23,836	36
Local economic assistance	1,600	2,100	2,045	(55)
Other grants	181,162	219,970	219,025	(945)
Fire equipment grant	11,000	11,000	11,000	-
	<u>224,962</u>	<u>263,570</u>	<u>263,037</u>	<u>(533)</u>
<b>Charges for service</b>				
Accident reports	1,100	1,000	1,001	1
	<u>1,100</u>	<u>1,000</u>	<u>1,001</u>	<u>1</u>
<b>Other revenues</b>				
Interest income	2,000	3,400	5,637	2,237
Management fees	135,000	135,000	135,000	-
Other revenues	26,325	39,158	27,842	(11,316)
	<u>163,325</u>	<u>177,558</u>	<u>168,479</u>	<u>(9,079)</u>
<b>Other financing sources</b>				
Transfers in, net	36,000	58,700	58,700	-
<b>Total revenues and other financing sources</b>	<u>\$ 970,987</u>	<u>\$ 1,091,628</u>	<u>\$ 1,095,364</u>	<u>\$ 3,736</u>



**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2018**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Government</b>				
Salaries	\$ 94,981	\$ 100,600	\$ 102,539	\$ 1,939
Payroll taxes and employee benefits	17,915	25,800	25,442	(358)
KY ASAP grant	15,000	32,500	41,864	9,364
Planning and zoning expenses	5,600	5,600	5,604	4
Professional services	6,000	7,500	7,074	(426)
Utilities	7,000	7,000	7,031	31
Office supplies	1,800	3,000	3,156	156
Insurance	22,250	23,800	23,748	(52)
Lake Liberty expenses	600	550	520	(30)
Postage	800	1,100	1,048	(52)
Dues and subscriptions	250	250	200	(50)
Parks and recreation	6,000	10,100	7,388	(2,712)
Fireworks	15,500	17,450	17,427	(23)
Deficit for College Building	-	12,700	26,726	14,026
Other expenses	12,010	10,950	19,771	8,821
	<u>205,706</u>	<u>258,900</u>	<u>289,538</u>	<u>30,638</u>
<b>Public Safety - Police</b>				
Salaries	238,230	243,000	235,395	(7,605)
Payroll taxes and employee benefits	99,001	113,500	110,990	(2,510)
Motor fuels	13,000	14,100	14,921	821
Utilities	4,300	4,550	4,368	(182)
Equipment	7,200	7,000	7,575	575
Vehicle repairs	2,000	2,800	2,607	(193)
Uniforms	1,500	1,300	5,895	4,595
Insurance	24,570	26,100	28,967	2,867
Miscellaneous	5,500	4,000	4,603	603
	<u>395,301</u>	<u>416,350</u>	<u>415,321</u>	<u>(1,029)</u>
<b>Public Safety - Fire</b>				
Labor	42,400	46,480	46,480	-
Repairs and maintenance	4,500	2,400	1,803	(597)
Equipment	16,000	10,000	11,056	1,056
Utilities	6,000	4,900	4,688	(212)
Insurance	7,160	7,200	7,152	(48)
Motor fuel	1,700	1,700	1,494	(206)
Miscellaneous	6,000	5,000	4,339	(661)
	<u>83,760</u>	<u>77,680</u>	<u>77,012</u>	<u>(668)</u>

**CITY OF LIBERTY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2018**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Street Department</b>				
Street repairs	\$ 750	\$ -	\$ -	\$ -
Repairs and maintenance	-	2,300	2,247	(53)
Utilities	59,000	60,000	59,280	(720)
Supplies	1,000	1,500	1,465	(35)
Miscellaneous expenses	-	-	-	-
	<u>60,750</u>	<u>63,800</u>	<u>62,992</u>	<u>(808)</u>
<b>Capital Outlay</b>	<u>129,162</u>	<u>168,400</u>	<u>166,833</u>	<u>(1,567)</u>
<b>Debt Service</b>	<u>106,460</u>	<u>106,460</u>	<u>106,405</u>	<u>(55)</u>
<b>Total expenditures</b>	<u>\$ 981,139</u>	<u>\$ 1,091,590</u>	<u>\$ 1,118,101</u>	<u>\$ 26,511</u>

**CITY OF LIBERTY, KENTUCKY  
 REQUIRED SUPPLEMENTARY SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
 Last Five Fiscal Years**

	2014	2015	2016	2017	2018
City's proportion of the net pension liability	0.0296%	0.0296%	0.0296%	0.0298%	0.0303%
City's proportionate share of the net pension liability (asset)	\$ 1,085,805	\$ 962,373	\$ 1,261,770	\$ 1,457,174	\$ 1,777,420
City's covered employee payroll	\$ 673,796	\$ 671,150	\$ 676,346	\$ 708,809	\$ 739,341
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	161.15%	143.39%	186.56%	205.58%	240.41%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

- The assumed investment rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.5% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF LIBERTY, KENTUCKY  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF PENSION CONTRIBUTIONS - NONHAZARDOUS  
Last Six Fiscal Years**

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 80,490	\$ 93,431	\$ 87,992	\$ 88,308	\$ 103,135	\$ 111,984
Contributions relative to contractually required employer contribution	<u>80,490</u>	<u>93,431</u>	<u>87,992</u>	<u>88,308</u>	<u>103,135</u>	<u>111,984</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 637,796	\$ 671,150	\$ 676,346	\$ 708,809	\$ 739,341	\$ 773,375
Employer contributions as a percentage of covered-employee payroll	12.62%	13.92%	13.01%	12.46%	13.95%	14.48%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF LIBERTY, KENTUCKY  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF OPEB CONTRIBUTIONS - NONHAZARDOUS  
Last Six Fiscal Years**

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 44,199	\$ 35,020	\$ 33,954	\$ 32,889	\$ 34,971	\$ 36,349
Contributions relative to contractually required employer contribution	<u>44,199</u>	<u>35,020</u>	<u>33,954</u>	<u>32,889</u>	<u>34,971</u>	<u>36,349</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 637,796	\$ 671,150	\$ 676,346	\$ 708,809	\$ 739,341	\$ 773,375
Employer contributions as a percentage of covered-employee payroll	6.93%	5.22%	5.02%	4.64%	4.73%	4.70%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF LIBERTY, KENTUCKY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2018**

	<b>Cemetery Fund</b>	<b>Municipal Road Aid Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 32,378	\$ -	\$ 32,378
Investments	57,362	-	57,362
Receivables, net	-	5,113	5,113
Due from other funds	-	72,230	72,230
 Total assets	 \$ 89,740	 \$ 77,343	 \$ 167,083
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Due to other funds	\$ 4,786	\$ -	\$ 4,786
 Total liabilities	 4,786	 -	 4,786
 Fund balance	 84,954	 77,343	 162,297
 Total liabilities and fund balances	 \$ 89,740	 \$ 77,343	 \$ 167,083

**CITY OF LIBERTY, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 for the year ended June 30, 2018**

	<b>Cemetery Fund</b>	<b>Municipal Road Aid Fund</b>	<b>Total</b>
<b>REVENUES</b>			
Charges for services	\$ 3,600	\$ -	\$ 3,600
Intergovernmental	-	42,507	42,507
Other revenues	481	-	481
Total revenues	4,081	42,507	46,588
<b>EXPENDITURES</b>			
Current			
General government	9,656	-	9,656
Streets department	-	106,937	106,937
Total expenditures	9,656	106,937	116,593
Excess (deficiency) of revenues over expenditures	(5,575)	(64,430)	(70,005)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
<b>Net change in fund balances</b>	(5,575)	(64,430)	(70,005)
Fund balances-beginning	90,529	141,773	232,302
<b>Fund balances-ending</b>	\$ 84,954	\$ 77,343	\$ 162,297



**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 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, 2018, 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 13, 2019.

**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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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



## **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 13, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Mayor and City Council  
Liberty, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Liberty, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Liberty, Kentucky's major federal programs for the year ended June 30, 2018. The City of Liberty, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Liberty, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Liberty, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Liberty, Kentucky's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Liberty, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control over Compliance

Management of the City of Liberty, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Liberty, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Liberty, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 13, 2019

**CITY OF LIBERTY, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**for the year ended June 30, 2018**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass Through Grantor's Number	Expenditures
United States Environmental Protection Agency Passed through the Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	A15.019	\$ 745,146
United States Department of Housing and Urban Development Passed through the Kentucky Department for Local Government Community Development Block Grant/State's program and Non-entitlement Grants in Hawaii	14.228	15-017	<u>775,229</u>
<b>Total expenditures of federal awards</b>			<b><u>\$ 1,520,375</u></b>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Liberty, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used, in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - The City did not pass through any funds to subrecipients.

**Note 3 - Indirect Cost Rates**

The City did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 4 - Passthrough grantor numbers are presented when available.

**CITY OF LIBERTY, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2018**

---

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified  Yes  No

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

Non-compliance material to financial statements noted  Yes  No

Federal Awards:

Internal control over major programs:

Material weaknesses identified  Yes  No

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

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in

accordance with Section 2 CFR 200.516(a)?  Yes  No

**Major Programs:**

**CFDA Number**

14.228

**Name of Federal Program or Cluster**

Community Development Block Grant/State's program  
and Non-entitlement Grants in Hawaii

Dollar threshold used to distinguish between type A  
and type B programs:

\$ 750,000

Auditee qualified as a low-risk auditee?  Yes  No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE