

CITY OF WEST LIBERTY, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mark Walter, Mayor
Members of the City Council
City of West Liberty, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Liberty, Kentucky as of and for the year ended June 30, 2013, 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.

Auditor's 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.

Opinions

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 West Liberty, Kentucky, as of June 30, 2013, 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 Matter

As discussed in Note 12 to the financial statements, in 2012 the City of West Liberty, Kentucky adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39-42 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty, Kentucky's basic financial statements. The supplementary and other information and the schedules of expenditures of federal awards, as required by Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 supplementary and other information 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 August 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 26, 2013

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 450,097	\$ 491,009	\$ 941,106
Certificates of deposit	125,000	66,164	191,164
Taxes receivable	18,552	-	18,552
Accounts receivable	19,557	175,382	194,939
Interest receivable	-	10	10
Grants receivable	149,721	655,702	805,423
Other receivables	977,376	-	977,376
Internal balances	466,497	(466,497)	-
Unbilled revenues	-	75,762	75,762
Inventory	-	159,890	159,890
Capital assets:			
Land and construction-in-progress	210,136	3,902,792	4,112,928
Other capital assets, net of accumulated depreciation	2,620,423	12,101,082	14,721,505
Total Assets	5,037,359	17,161,296	22,198,655
LIABILITIES			
Accounts payable	402,306	630,963	1,033,269
Retainage payable	-	195,786	195,786
Accrued payroll	13,070	12,872	25,942
Accrued payroll taxes	7,733	3,047	10,780
Accrued vacation	37,400	35,969	73,369
Accrued interest	5,625	32,642	38,267
Other accrued liabilities	12,983	15,192	28,175
Revenue anticipation notes	1,773,934	199,463	1,973,397
Long-term liabilities:			
Due within one year	38,566	147,677	186,243
Due in more than one year	495,547	3,750,085	4,245,632
Total Liabilities	2,787,164	5,023,696	7,810,860
NET POSITION			
Net investment in capital assets	2,296,446	11,906,649	14,203,095
Restricted for:			
Depreciation	-	100,285	100,285
Fire service	198,362	-	198,362
Highways and streets	57,232	-	57,232
Tourism	128,158	-	128,158
911 dispatch	1,914	-	1,914
Debt service	330,172	170,726	500,898
Unrestricted	(762,089)	(40,060)	(802,149)
Total Net Position	\$ 2,250,195	\$ 12,137,600	\$ 14,387,795

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 630,091	\$ 196,103	\$ -	\$ -	\$ (433,988)	\$ -	\$ (433,988)
Public safety	1,045,182	167,235	7,750	10,000	(860,197)	-	(860,197)
Streets	188,180	-	-	-	(188,180)	-	(188,180)
Tourism and planning	193,905	-	-	-	(193,905)	-	(193,905)
Interest on long-term debt	62,723	-	-	-	(62,723)	-	(62,723)
Total governmental activities	<u>2,120,081</u>	<u>363,338</u>	<u>7,750</u>	<u>10,000</u>	<u>(1,738,993)</u>	<u>-</u>	<u>(1,738,993)</u>
Business-type activities:							
Water, Sewer, Gas	<u>2,920,095</u>	<u>2,171,481</u>	<u>-</u>	<u>3,345,784</u>	<u>-</u>	<u>2,597,170</u>	<u>2,597,170</u>
Total business-type activities	<u>2,920,095</u>	<u>2,171,481</u>	<u>-</u>	<u>3,345,784</u>	<u>-</u>	<u>2,597,170</u>	<u>2,597,170</u>
Total primary government	\$ 5,040,176	\$ 2,534,819	\$ 7,750	\$ 3,355,784	(1,738,993)	2,597,170	858,177
General revenues:							
Property taxes					199,797	-	199,797
Fire taxes					24,374	-	24,374
Insurance premium taxes					389,858	-	389,858
Occupational taxes and licenses					366,298	-	366,298
Motor vehicle taxes					16,611	-	16,611
Restaurant taxes					139,115	-	139,115
Other taxes					21,116	-	21,116
Licenses and permits					4,700	-	4,700
Administrative					189,250	-	189,250
Intergovernmental revenue					186,485	1,443	187,928
Interest income					3,427	1,986	5,413
Rental income					17,268	-	17,268
Insurance proceeds					448,508	-	448,508
Loss on disposal of capital assets					(14,663)	-	(14,663)
Miscellaneous					52,328	-	52,328
Extraordinary items:							
Tornado debris cleanup and repairs					(296,965)	-	(296,965)
Total general revenues and extraordinary items					<u>1,747,507</u>	<u>3,429</u>	<u>1,750,936</u>
Change in net position					8,514	2,600,599	2,609,113
Net position - beginning, restated					<u>2,241,681</u>	<u>9,537,001</u>	<u>11,778,682</u>
Net position - ending					\$ 2,250,195	\$ 12,137,600	\$ 14,387,795

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>General Fund</u>	<u>Tourism and Planning</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 100,028	\$ 130,042	\$ 220,027	\$ 450,097
Certificate of deposit	-	-	125,000	125,000
Due from Water, Sewer, Gas	344,338	-	122,159	466,497
Due from CMRS Fund	1,500	-	-	1,500
Due from General Fund	-	-	125,000	125,000
Receivables:				
Property taxes	369	-	-	369
Grants	149,721	-	-	149,721
Insurance proceeds	62,376	-	-	62,376
Other	931,969	-	2,588	934,557
Total Assets	<u>\$ 1,590,301</u>	<u>\$ 130,042</u>	<u>\$ 594,774</u>	<u>\$ 2,315,117</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 396,372	\$ 1,884	\$ 4,050	\$ 402,306
Accrued payroll	13,070	-	-	13,070
Accrued payroll taxes	7,733	-	-	7,733
Accrued vacation	37,400	-	-	37,400
Other accrued liabilities	11,439	-	1,544	12,983
Revenue anticipation notes	1,773,934	-	-	1,773,934
Due to Debt Service Fund	125,000	-	1,500	126,500
Total Liabilities	<u>2,364,948</u>	<u>1,884</u>	<u>7,094</u>	<u>2,373,926</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	330,172	330,172
Public safety	-	-	1,914	1,914
Streets	-	-	57,232	57,232
Tourism	-	128,158	-	128,158
Assigned to:				
Public safety	-	-	198,362	198,362
Unassigned:				
General fund	(774,647)	-	-	(774,647)
Total Fund Balances	<u>(774,647)</u>	<u>128,158</u>	<u>587,680</u>	<u>(58,809)</u>
Total Liabilities and Fund Balances	<u>\$ 1,590,301</u>	<u>\$ 130,042</u>	<u>\$ 594,774</u>	<u>\$ 2,315,117</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

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Fund Balances - Total Governmental Funds \$ (58,809)

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Governmental capital assets	5,207,011
Less: accumulated depreciation	(2,376,452)

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds. (534,113)

Interest payable on long-term debt did not require current financial
resources. Therefore, interest payable was not reported as a
liability in Governmental Funds Balance Sheet. (5,625)

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Delinquent property taxes	<u>18,183</u>
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Net Position of Governmental Activities \$ 2,250,195

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 206,291	\$ -	\$ -	\$ 206,291
Insurance premium	389,858	-	-	389,858
Occupational taxes and licenses	366,298	-	-	366,298
Motor vehicle	-	-	16,611	16,611
Telecom	12,236	-	-	12,236
Fire	-	-	24,374	24,374
Restaurant	-	139,115	-	139,115
Motel	-	8,880	-	8,880
E-911	69,374	-	-	69,374
Shelter income	-	1,440	-	1,440
Wireless collections	-	-	97,861	97,861
Administrative	189,250	-	-	189,250
Licenses and permits	4,700	-	-	4,700
Intergovernmental revenues	14,099	-	190,136	204,235
Charges for garbage services	196,103	-	-	196,103
Rental income	15,828	-	-	15,828
Fines and forfeits	1,450	-	-	1,450
Interest income	765	75	2,587	3,427
Contributions	6,619	-	-	6,619
Miscellaneous revenues	3,925	40,334	-	44,259
Total revenues	<u>1,476,796</u>	<u>189,844</u>	<u>331,569</u>	<u>1,998,209</u>
Expenditures:				
Current:				
General government	611,627	-	-	611,627
Public safety	859,206	-	59,786	918,992
Streets	51,046	-	52,464	103,510
Tourism and planning	-	153,641	-	153,641
Debt service:				
Principal retirement	-	-	23,976	23,976
Interest	28,264	-	35,091	63,355
Capital outlay	<u>471,798</u>	<u>167,643</u>	<u>111,964</u>	<u>751,405</u>
Total expenditures	<u>2,021,941</u>	<u>321,284</u>	<u>283,281</u>	<u>2,626,506</u>
Excess (deficiency) of revenues over expenditures	(545,145)	(131,440)	48,288	(628,297)
Other financing sources (uses):				
Operating transfers in	181,426	-	100,637	282,063
Operating transfers out	(48,000)	(56,180)	(177,883)	(282,063)
Proceeds from insurance	162,378	204,801	81,329	448,508
Total other financing sources (uses)	<u>295,804</u>	<u>148,621</u>	<u>4,083</u>	<u>448,508</u>
Special and extraordinary items:				
Tornado debris cleanup and repairs	(296,965)	-	-	(296,965)
Total special and extraordinary items	<u>(296,965)</u>	<u>-</u>	<u>-</u>	<u>(296,965)</u>
Net change in fund balances	(546,306)	17,181	52,371	(476,754)
Fund balances - beginning	(228,341)	110,977	535,309	417,945
Fund balances - ending	<u>\$ (774,647)</u>	<u>\$ 128,158</u>	<u>\$ 587,680</u>	<u>\$ (58,809)</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

8

Net Change in Fund Balances - Total Governmental Funds \$(476,754)

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

Governmental funds report capital outlays as expenditures.
However, on the statement of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation
expense:

Capital asset purchases capitalized	751,405
Depreciation expense	(269,588)

The net effect of various miscellaneous transactions involving capital assets: (14,663)

Revenues on the statement of activities that do not provide current
financial resources are not reported as revenues in governmental funds:

Increase/(decrease) in property taxes	(6,494)
---------------------------------------	---------

In the statement of activities, interest is accrued on outstanding long-term
debt, whereas in the governmental funds interest is not reported until due.
This amount represents the net change in accrued interest payable. 632

Repayment of principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities on the statement of
activities:

Loans payable	<u>23,976</u>
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Change in Net Position of Governmental Activities \$ 8,514

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET POSITION
 BUSINESS-TYPE ACTIVITY
 JUNE 30, 2013

	<u>Water, Sewer, Gas</u>
ASSETS	
Current assets:	
Cash	\$ 286,162
Accounts receivable, no allowance considered necessary	175,382
Interest receivable	10
Grants receivable	655,702
Unbilled revenues	75,762
Inventory	159,890
	<hr/>
Total current assets	1,352,908
Non-current assets:	
Restricted assets:	
Cash	204,847
Certificate of deposits	66,164
	<hr/>
Total restricted assets	271,011
Utility Plant:	
Plant in service	22,041,270
Less accumulated depreciation	(9,857,274)
	<hr/>
	12,183,996
Construction work in progress	3,819,878
	<hr/>
Net utility plant	16,003,874
	<hr/>
Total assets	17,627,793

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET POSITION (Continued)
 BUSINESS-TYPE ACTIVITY
 JUNE 30, 2013

LIABILITIES	<u>Water, Sewer, Gas</u>
Current liabilities:	
Accounts payable - trade	119,413
Accounts payable - projects	511,550
Retainage payable	195,786
Accrued payroll	12,872
Accrued payroll taxes	3,047
Accrued vacation	35,969
Accrued interest payable	32,642
Due to general fund	344,338
Due to debt service fund	122,159
Short-term note payable	199,463
Other accrued liabilities	15,192
Current portion of long-term liabilities	<u>147,677</u>
Total current liabilities	<u>1,740,108</u>
Long-term liabilities:	
Long-term debt	3,907,420
Unamortized discount	<u>(9,658)</u>
	3,897,762
Less current portion	<u>(147,677)</u>
Total long-term liabilities	<u>3,750,085</u>
Total liabilities	<u>5,490,193</u>
NET POSITION:	
Net investment in capital assets	11,906,649
Restricted for:	
Debt service	170,726
Depreciation	100,285
Unrestricted	<u>(40,060)</u>
Total net position	<u>\$ 12,137,600</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 BUSINESS-TYPE ACTIVITY
 YEAR ENDED JUNE 30, 2013**

	<u>Water, Sewer, Gas</u>
Operating revenues:	
Sewer revenues	\$ 621,144
Water revenues	929,597
Gas revenues	571,957
Other operating revenues	<u>48,783</u>
Total operating revenues	2,171,481
Cost of sales - gas purchases	<u>346,152</u>
Net operating revenues	<u>1,825,329</u>
Operating expenses:	
Sewer	1,012,218
Water	1,164,982
Gas	<u>228,240</u>
Total operating expenses	<u>2,405,440</u>
Utility operating income (loss)	<u>(580,111)</u>
Non-operating revenues (expenses):	
Interest income	1,986
Interest expense	<u>(168,503)</u>
Total non-operating revenues (expenses)	<u>(166,517)</u>
Net income (loss) before contributions from (to)	(746,628)
Contributions in aid of construction	<u>3,347,227</u>
Change in net position	2,600,599
Net position, beginning of year - restated	<u>9,537,001</u>
Net position, end of year	<u>\$ 12,137,600</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2013**

	<u>Water, Sewer, Gas</u>
Cash flows from operating activities:	
Cash inflows:	
Payments received from customers	\$ 2,184,638
Total cash provided	<u>2,184,638</u>
Cash outflows:	
Payments for salaries and benefits	657,023
Payments to suppliers for goods and services	<u>1,659,075</u>
Total cash used	<u>2,316,098</u>
Net cash provided (used) by operating activities	<u>(131,460)</u>
Cash flows from noncapital financing activities:	
Advances from other funds	<u>335,244</u>
Net cash provided (used) by noncapital financing activities	<u>335,244</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,011,194)
Capital contributions received	3,002,280
Principal payments on long-term debt	(115,136)
Principal payments on revenue anticipation note	(537)
Proceeds from revenue anticipation note	200,000
Interest paid on long-term debt	<u>(156,649)</u>
Net cash provided (used) by capital and related financing activities	<u>(81,236)</u>
Net cash inflow (outflow) from all activities	122,548
Cash and cash equivalents at beginning of period	<u>434,625</u>
Cash and cash equivalents at end of period	<u>\$ 557,173</u>

See accompanying notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of West Liberty, Kentucky (the City) was established in 1840. The City operates under Council-Mayor form of government and provides the following service as authorized by its charter: public safety, highway and street, public works, recreation, community development, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The City's Proprietary Funds follow GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of West Liberty's only such entity included in the financial statements, as a blended component unit, is the City of West Liberty Public Properties Corporation.

The City of West Liberty Public Properties Corporation (the Corporation) was established as a nonprofit corporation pursuant to a resolution of the City Council to act as an agency and instrumentality of the City. The purpose of the corporation was to finance the cost of construction of the City Hall building which is leased to the General Fund of the City. The Corporation financed the costs related to the project by issuance of \$448,000 first mortgage revenue bonds dated January 16, 1991 and demand notes totaling \$94,956 at the Commercial Bank of West Liberty. The City has agreed to lease the facilities from the Corporation with minimum annual rentals equal to the funding requirements of the bonds and notes. Therefore, no amounts are shown for rent relating to the lease of the City Hall building. The General Fund has the option each year to renew the lease.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not property included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

General Fund –

The General Fund is the main operating fund of the City and always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund –

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Municipal Road Aid Fund –

The Municipal Road Aid Fund is used to account for the revenues received and expenditures paid for construction, reconstruction, and maintenance of city streets.

Tourism and Planning Commission Fund –

The Tourism and Planning Commission Fund is used to account for the restaurant tax and shelter income and the related expenditures. The Tourism and Planning Commission Fund is considered a major fund for government-wide reporting purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CMRS Fund –

The CMRS Fund is used to account for wireless collections and the related expenditures paid for 911 dispatch.

Fire Tax Fund –

The Fire Tax Fund is used to account for fire tax collections and the related expenditures.

Police Incentive Fund –

The Police Incentive Fund is used to account for funds received from the Kentucky Law Enforcement Foundation Program and the related expenditures.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net assets, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water, Sewer, and Gas Fund –

The Water, Sewer, and Gas Fund is used to account for the provision of water, sewer, and gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water, sewer, and gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water, sewer, and gas debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, charges for service, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

D. Budgetary Control

The City follows the procedures established pursuant to Section 91 A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on the same basis of accounting as used in the financial statements.

Budgeted amounts in the financial statements are as amended and adopted by ordinance of the City.

Kentucky Revised Statute 91A.030 prohibits and nullifies any expenditure in excess of budgeted amounts. Certain actual expenditures exceeded budgeted amounts.

E. Cash and Investments

The City considers all cash, certificates of deposit, and savings to be cash equivalents.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventory of Supplies

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory of the utility funds consists of materials and supplies.

H. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Bond Discounts

Bond discounts are being amortized over the life of the bonds using the effective interest method.

J. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,500 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water, Sewer, and Gas System	10-50 Years
Infrastructure	10-35 Years
Machinery and Equipment	3-10 Years
Improvements	15 Years

K. Compensated Absences

The City of West Liberty's policy allows full-time employees to earn vacation leave and sick leave. Employees earn ten (10) days of vacation after each year of employment. After ten years of employment, employees earn fifteen (15) days of vacation per year. Any accumulated vacation will be paid to an employee upon termination.

Employees earn one (1) day of sick leave for each month worked and there is no limit on the number of days that can accumulate. Accumulated sick leave will not be paid to an employee upon termination.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interest Payable

In the Government-wide financial statements, interest payable on general long-term debt is recognized as the liability is incurred.

In the fund financial statements, governmental fund types recognize interest expenditures when due and payable.

N. Allowance for Uncollectible Accounts

The City's delinquent taxes and accounts receivable are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to those receivables.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the City imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner.

Assigned – resources neither restricted nor committed for which the City has a stated intended use as established by the City Council.

Unassigned – resources which cannot be properly classified in one of the other four categories.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Likewise, fund balances that are committed or assigned would be used first for their approved purposes. Unassigned fund balances would be used as needed.

Q. Defined Pension Benefit Plan

Substantially all City of West Liberty's full-time regular employees participate in the statewide Kentucky

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Defined Pension Benefit Plan (Continued)

Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky. The payroll for employees covered by the System for the year ended June 30, 2013 was \$1,096,358; the City's total payroll was \$1,133,181.

All City full-time employees are eligible to participate in the System. The Plan provides for retirement, disability and death benefits.

Covered employees are required by State statute to contribute 5 percent (6 percent for newly hired employees) of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service cost per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 19.55% for all covered employees. The contribution requirement for the year ended June 30, 2013 was \$270,550, which consisted of \$214,338 from the City and \$56,212 from employees.

Additional information and historical trend information can be obtained from the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

R. Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

S. Unbilled Receivables

The City's Utility Department reads meters to measure customer consumption of sewer and water in the middle of the month. Estimates for unbilled receivable were based on consumption for the meter reading period immediately following the year end. This usage was prorated for the number of days within the fiscal year and multiplied by the appropriate rates.

NOTE 2. DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U. S. Treasury and U. S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local banks in the form of certificates of deposits, savings accounts, and money market accounts. This investment call subjects the City to custodial credit risk; however, the City considers this risk immaterial, and as such, the City does not have a formal investment policy to deal with such risk.

The City of West Liberty, Kentucky, categorizes deposits at local financial institutions to give an indication of the level of risk assumed by the City at fiscal year end. The categories are described as follows:

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Category 1 – Insured or collateralized with securities held by the City or by its agent in the City’s name.

Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2013 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$1,151,851</u>	<u>\$307,528</u>	<u>\$844,323</u>	<u>\$ -</u>	<u>\$987,138</u>

The City’s deposits and investments are also subject to risks such as interest rate risk and concentration of credit risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a deposit or investment. Deposits and investments held for longer periods are subject to increased risk of adverse interest rate changes. The City has attempted to address this risk by maintaining its deposits in accounts that continually adjust the interest rate to the market. Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. The City has addressed this risk by maintaining its deposits at financial institutions that are insured by the FDIC and by requiring additional collateral to cover deposits in excess of that amount.

NOTE 3. PROPERTY TAXES

Property taxes for fiscal year 2012 were levied on \$258,163,555 the assessed valuation of property and bank deposits located in Morgan County as of the preceding January 1, the lien date. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided. A reserve for uncollectible property taxes is recorded for the amount uncollected at year end. The due date and collection periods for property taxes are as follows:

<u>Description</u>	<u>Per K.R.S. 134.020</u>
Due date for payment of taxes	Upon Receipt
Discount of 2%	Receipt to October 31
Face value amount payment dates	November 1 to November 30
Tax balance plus 2% penalty	December 1 to December 31
Tax balance plus 10% penalty	January 1

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, consisted of the following:

Governmental Activities

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 210,136	\$ -	\$ -	\$ 210,136

CITY OF WEST LIBERTY, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 4. CAPITAL ASSETS (Continued)

Construction in progress	<u>559,789</u>	<u>44,386</u>	<u>604,175</u>	<u>-</u>
Total capital assets, not being depreciated	<u>769,925</u>	<u>44,386</u>	<u>604,175</u>	<u>210,136</u>
Capital assets, being depreciated:				
Buildings and improvements	585,359	853,685	6,196	1,432,848
Improvements other than buildings	688,926	127,393	82,505	733,814
Infrastructure	650,261	111,964	-	762,225
Automobiles and trucks	555,017	-	-	555,017
Machinery and equipment	<u>1,294,819</u>	<u>218,152</u>	<u>-</u>	<u>1,512,971</u>
Total capital assets being depreciated	3,774,382	1,311,194	88,701	4,996,875
Less accumulated depreciation for:				
Buildings and improvements	(228,158)	(21,589)	(5,938)	(243,809)
Improvements other than buildings	(463,413)	(35,875)	(68,100)	(431,188)
Infrastructure	(280,005)	(70,624)	-	(350,629)
Automobiles and trucks	(345,597)	(34,024)	-	(379,621)
Machinery and equipment	<u>(863,729)</u>	<u>(107,476)</u>	<u>-</u>	<u>(971,205)</u>
Total accumulated depreciation	<u>(2,180,902)</u>	<u>(269,588)</u>	<u>(74,038)</u>	<u>(2,376,452)</u>
Total capital assets being depreciated, net	<u>1,593,480</u>	<u>1,041,606</u>	<u>14,663</u>	<u>2,620,423</u>
Governmental activities capital assets, net	<u>\$2,363,405</u>	<u>\$1,085,992</u>	<u>\$ 618,838</u>	<u>\$2,830,559</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 18,464
Public safety	126,190
Tourism and planning	40,264
Streets	<u>84,670</u>
Total	<u>\$ 269,588</u>

Business-Type Activities

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 63,914	\$ 19,000	\$ -	\$ 82,914
Construction in progress	<u>144,146</u>	<u>3,675,732</u>	<u>-</u>	<u>3,819,878</u>
Total capital assets, not being depreciated	<u>208,060</u>	<u>3,694,732</u>	<u>-</u>	<u>3,902,792</u>
Capital assets, being depreciated:				
Leasehold improvements	1,000	-	-	1,000
Machinery and equipment	<u>928,635</u>	<u>15,048</u>	<u>-</u>	<u>943,683</u>

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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NOTE 4. CAPITAL ASSETS (Continued)

Water plant and water system	9,412,671	-	-	9,412,671
Sewer plant and sewer system	10,592,935	-	-	10,592,935
Gas system	<u>1,008,067</u>	-	-	<u>1,008,067</u>
Total capital assets being depreciated	21,943,308	15,048	-	21,958,356
Less accumulated depreciation for:				
Leasehold improvements	(657)	(31)	-	(688)
Machinery and equipment	(687,816)	(47,110)	-	(734,926)
Water plant and water system	(4,050,464)	(273,242)	-	(4,323,706)
Sewer plant and sewer system	(4,441,299)	(308,693)	-	(4,749,992)
Gas system	<u>(27,801)</u>	<u>(20,161)</u>	-	<u>(47,962)</u>
Total accumulated depreciation	<u>(9,208,037)</u>	<u>(649,237)</u>	-	<u>(9,857,274)</u>
Total capital assets being depreciated, net	<u>12,735,271</u>	<u>(634,189)</u>	-	<u>12,101,082</u>
Total utilities capital assets, net	<u>\$12,943,331</u>	<u>\$3,060,543</u>	<u>\$ -</u>	<u>\$16,003,874</u>

NOTE 5: LONG-TERM DEBT

Business -Type Activities

The Water and Sewer Proprietary Fund presently has six bond issues outstanding.

- 1) 1988 Series - \$579,000 Water and Sewer revenue bonds, maturing through November 1, 2023, with interest at 5.0%.
- 2) 1998 Series - \$449,000 Water and Sewer revenue bonds, maturing through November 1, 2039, with interest at 4.5%.
- 3) 2001 Series (A) - \$1,000,000 Water and Sewer revenue bonds, maturing through November 1, 2041, with interest at 3.25%.
- 4) 2001 Series (B) - \$280,000 Water and Sewer revenue bonds, maturing through November 1, 2041, with interest at 4.5%.
- 5) 2006 Series - \$801,000 Water and Sewer revenue bonds, maturing through November 1, 2045, with interest at 4.125%.
- 6) 2007 Series - \$400,000 Water and Sewer revenue bonds, maturing through November 1, 2045, with interest at 4.125%.
- 7) 2010 Series - \$740,000 Gas revenue bonds, maturing through February 1, 2040, with interest at variable rates.

Principal payments are due annually for water and sewer revenue bonds on November 1, and interest payments are due semi-annually on May 1, and November 1. Principal payments are due February 1, for gas revenue bonds and interest payments are due semi-annually on February 1, and August 1.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5: LONG-TERM DEBT (Continued)

Total bond interest expense for the year ended June 30, 2013, amounted to \$146,094.

The Water, Sewer, and Gas Proprietary Fund notes payable at June 30, 2013 consisted of the following:

In 1997, the City borrowed \$329,764 from Kentucky Infrastructure Authority, payable in semi-annual installments of \$9,298 including interest of 1.2%. Final payment is due on June 1, 2017.

During fiscal year June 30, 2011, the City assumed \$210,646 of debt on the purchase of Elam Utility Company, Inc. A loan with Commercial Bank had a balance of \$30,096 and a loan with Community Trust Bank had a balance of \$180,550. The Commercial Bank loan bears interest at 5.25%. The Community Trust Bank loan bears interest at 7.50% and is payable in monthly installments of \$2,991 with final payment due on October 22, 2016.

	Amount Outstanding 6/30/2012	Additions	Deductions	Amount Outstanding 6/30/2013	Amounts Due Within One Year
Bond payable – 1988 issue	\$ 386,000	\$ -	\$ (15,000)	\$ 371,000	\$ 16,000
Bond payable – 1998 issue	396,500	-	(7,000)	389,500	7,000
Bond payable – 2001 issue (A)	876,000	-	(18,000)	858,000	18,000
Bond payable – 2001 issue (B)	252,500	-	(4,000)	248,500	4,500
Bond payable – 2006 issue	763,500	-	(10,500)	753,000	11,000
Bond payable – 2007 issue	381,000	-	(5,500)	375,500	5,500
Bond payable – 2010 issue	718,750	-	(8,750)	710,000	15,000
Note payable – KIA	89,979	-	(17,567)	72,412	17,779
Note payable – Commercial Bank	26,044	-	(2,797)	23,247	23,247
Note payable – Community Trust	<u>132,436</u>	<u>-</u>	<u>(26,175)</u>	<u>106,261</u>	<u>29,651</u>
	4,022,709	-	(115,289)	3,907,420	147,677
Unamortized bond discount	<u>(9,811)</u>	<u>-</u>	<u>153</u>	<u>(9,658)</u>	<u>-</u>
Long-Term Debt	<u>\$4,012,898</u>	<u>\$ -</u>	<u>\$(115,136)</u>	<u>\$3,897,762</u>	<u>\$147,677</u>

Principal and interest payments to be made on all long-term debt at June 30, 2013, for each of the next five years and thereafter are as follows:

Year Ending 6/30	Bonds	Notes	Total Principal	Total Interest	Total
2014	\$ 77,000	\$ 70,677	\$ 147,677	\$ 157,662	\$ 305,339
2015	79,500	49,197	128,697	152,212	280,909
2016	82,000	51,836	133,836	146,348	280,184
2017	85,000	30,210	115,210	140,704	255,914
2018	93,500	-	93,500	136,873	230,373
2019-2023	513,500	-	513,500	625,048	1,138,548
2024-2028	631,500	-	631,500	508,734	1,140,234
2029-2033	629,500	-	629,500	375,309	1,004,809
2034-2038	730,000	-	730,000	240,725	970,725

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5: LONG-TERM DEBT (Continued)

2039-2043	611,000	-	611,000	87,734	698,734
2044-2046	173,000	-	173,000	10,746	183,746
	<u>\$3,705,500</u>	<u>\$201,920</u>	<u>\$3,907,420</u>	<u>\$2,582,095</u>	<u>\$6,489,515</u>

Governmental Activities

The City presently has two bond issues outstanding.

- 1) Series A - \$300,000 Public Properties first mortgage revenue bonds maturing through January 16, 2020, with interest at 6.0%.
- 2) Series B - \$118,000 Public Properties first mortgage revenue bonds maturing through January 16, 2020, with interest at 6.0%.

Principal and interest payments are due annually for revenue bonds on January 1.

Total bond interest expense for the year ended June 30, 2013, amounted to \$12,480.

The City's notes payable at June 30, 2013 consisted of the following:

- 1) On June 11, 2012, the City borrowed \$350,089 at 4.9% interest from Commercial Bank for the construction of the new fire station. The loan was refinanced on February 26, 2013. The loan has an interest rate of 4.20% with a monthly payment of \$2,653 and matures February 26, 2028.

	Amount Outstanding 6/30/2012	Additions	Deductions	Amount Outstanding 6/30/2013	Amounts Due Within One Year
Bond payable – series A	\$155,000	\$ -	\$(15,000)	\$140,000	\$17,000
Bond payable – series B	53,000	-	(5,500)	47,500	5,500
Note payable – Fire Station	<u>350,089</u>	-	<u>(3,476)</u>	<u>346,613</u>	<u>16,066</u>
Long-Term Debt	<u>\$558,089</u>	<u>\$ -</u>	<u>\$(23,976)</u>	<u>\$534,113</u>	<u>\$38,566</u>

Principal and interest payments to be made on all long-term debt at June 30, 2013, for each of the next five years and thereafter are as follows:

Year Ending 6/30	Bonds	Notes	Total Principal	Total Interest	Total
2014	\$ 22,500	\$ 16,066	\$ 38,566	\$ 24,334	\$ 62,900
2015	24,000	18,302	42,302	23,434	65,736
2016	25,500	19,051	44,551	11,246	55,797
2017	27,000	19,901	46,901	18,884	65,785
2018	28,000	20,754	48,754	16,393	65,147
2019-2023	60,500	117,854	178,354	46,818	225,172
2024-2028	-	<u>134,685</u>	<u>134,685</u>	<u>13,885</u>	<u>148,570</u>
	<u>\$187,500</u>	<u>\$346,613</u>	<u>\$534,113</u>	<u>\$154,994</u>	<u>\$689,107</u>

NOTE 5: LONG-TERM DEBT (Continued)

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2013 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and CD's.

Construction Advances

On November 5, 2012, the City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the West Liberty Route 7 sewer improvements project and the Liberty Road sewer extension project.

The total loan assistance to the City is \$3,937,950 of which \$2,146,565 will be forgiven. Thus, the future loan to the City will be \$1,791,385. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

Total assistance received through June 30, 2013 was \$1,128,089 and total assistance receivable at June 30, 2013 was \$53,460 bringing total assistance recognized at June 30, 2013 to \$1,181,549. The total assistance recognized was below the amount being forgiven so the \$1,181,550 is recorded in contributions in aid of construction.

On November 5, 2012, the City entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the West Liberty water system improvements project.

The total loan assistance to the City is \$3,050,300 of which \$1,904,657 will be forgiven. Thus, the future loan to the City will be \$1,145,643. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

Total assistance received through June 30, 2013 was \$1,396,161 and total assistance receivable at June 30, 2013 was \$458,090 bringing total assistance recognized at June 30, 2013 to \$1,854,251. The total assistance recognized was below the amount being forgiven so the \$1,854,250 is recorded in contributions in aid of construction.

NOTE 6 - REVENUE ANTICIPATION NOTES PAYABLE

On July 26, 2013, the City refinanced Revenue Bond Anticipation Note, Series 2012 into Series 2013 for tornado disaster cleanup in the amount of \$858,934 at a 3.62% interest rate. The original financing was \$1 million. The note matures on June 15, 2014.

On July 26, 2013, the City refinanced Revenue Bond Anticipation Note, Series 2012B into Series 2013 for sewer extension project in the amount of \$199,463 at a 3.62% interest rate. The original financing was \$200,000. The note matures on June 15, 2014.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – REVENUE ANTICIPATION NOTES PAYABLE (Continued)

On July 26, 2013, the City refinanced Revenue Bond Anticipation Note, Series 2012 into Series 2013 for the New Market Tax Credit project in the amount of \$915,000 at a 3.62% interest rate. The original financing was \$915,000. The note matures on December 15, 2013.

The summary of the notes transactions for the fiscal year ended June 30, 2013, is as follows:

Beginning Balance June 30, 2012	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
\$ -	\$2,115,000	\$(141,603)	\$1,973,397	\$1,973,397
<u>\$ -</u>	<u>\$2,115,000</u>	<u>\$(141,603)</u>	<u>\$1,973,397</u>	<u>\$1,973,397</u>

NOTE 7 – INTERFUND TRANSFERS AND RECEIVABLES

The following is a schedule of interfund transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	CMRS Fund	Reimbursement	\$ 65,716
	Fire Tax Fund	Reimbursement	83,023
	Road Aid Fund	Reimbursement	3,057
	Tourism Fund	Reimbursement	29,630
Debt Service Fund	General Fund	Proceeds for debt service	48,000
	Fire Tax Fund	Proceeds for debt service	26,087
Road Aid Fund	Tourism Fund	Reimbursement	26,550
	Subtotal – Fund Financial Statements		282,063
	Less: Fund Eliminations		(282,063)
	Total Transfers – Government-wide Statement of Activities		<u>\$ -</u>

The following is a schedule of interfund receivables:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	CMRS Fund	\$ 1,500
	Water, Gas, Sewer	344,338
	Police Incentive	1,544
Debt Service Fund	General Fund	125,000
	Water, Gas, Sewer	122,159

NOTE 8 – RESTRICTIONS ON CASH

Sinking Reserve Funds for Bond Retirement

"Bond Sinking Funds" and "Debt Service Reserve Funds" are being maintained as required in various bond documents. Deposits into Bond Sinking Funds are made monthly in order to accumulate funds for payment of bond principal and interest. A Debt Service Reserve Fund is required for the purpose of having monies available in order to prevent a default in the payment of the principal or interest.

Proprietary Funds Bond Sinking Funds in the amount of \$87,228 is being held by the Commercial Bank of West Liberty in an interest bearing account.

Proprietary Funds Debt Service Reserve Fund in the amount of \$64,962 is being held in an interest bearing account at the Commercial Bank of West Liberty.

General Fund Bond Sinking Fund in the amount of \$75,271 is being held in an interest bearing account by the Commercial Bank of West Liberty. These funds are being maintained in the Debt Service Fund.

General Fund Debt Service Reserve Fund in the amount of \$7,742 is being held in an interest bearing savings account at the Commercial Bank of West Liberty, these funds are being maintained in the Debt Service Fund.

Reserve for Depreciation

"Depreciation Funds" are being maintained as required in various bond documents. These Proprietary Funds are required to be deposited into separate accounts for the purpose of maintaining the water and sewer systems. Certificates of Deposit have also been purchased for water and sewer depreciation reserves. The total amounts deposited in these accounts for Water Depreciation and for Waste Water Depreciation is \$100,285.

NOTE 9 – RISK MANAGEMENT

The City 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. The City pays annual premiums to the Kentucky League of Cities Insurance Agency for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the City. Kentucky League of Cities Insurance Agency pays claims as they arise.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

The City is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Administration officials and legal council do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in process.

NOTE 11 – FUND DEFICIT

The City's General Fund had a deficit fund balance of \$774,647 at June 30, 2013. The deficit is a result of recovery expenses related to the March 2012 tornado. Additional revenues from FEMA, the Community Emergency Relief Fund (CERF), and insurance are expected to reduce the deficit in fiscal year 2013-2014.

NOTE 12 – RESTATEMENT OF PRIOR PERIOD NET POSITION

The City implemented GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) for the fiscal year ending June 30, 2013.

Implementation of GASB 62 did not have any financial reporting impact on the City for fiscal year ended June 30, 2013. Implementation of GASB 63 required the reclassification of Net Assets to Net Position and, if applicable, it also required reclassification of deferred outflows and deferred inflows into new categories called Deferred Outflows of Resources and Deferred Inflows of Resources.

Implementation of GASB 65 recognizes cost of issuance of bonds as an expense, therefore the adoption of this statement resulted in an increase to the cost of issuance expense and a decrease to the unamortized bond issuance costs for fiscal year ended June 30, 2012. The prior year restatement for fiscal year ended June 30, 2012 decreased both the net position and unamortized issuance costs by \$37,001 in the Water, Sewer, Gas Fund.

NOTE 13 – SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through August 26, 2013, the date the financial statements were available to be issued.

CITY OF WEST LIBERTY, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	A11-11	\$ 255,104
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	A2 09-46	926,445
Total - Capitalization Grants for Clean Water State Revolving Funds	66.458		<u>1,181,549</u>
Pass-through program from Kentucky Infrastructure Authority			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	F11-04	1,169,714
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	F2 09-18	684,537
Total - Capitalization Grants for Drinking Water State Revolving Funds	66.468		<u>1,854,251</u>
Total U.S. Environmental Protection Agency			<u>3,035,800</u>
<u>U.S. DEPARTMENT OF THE DEFENSE</u>			
Pass-through program from Department of the Army - U.S. Army Engineer, Louisville District			
Southern and Eastern Kentucky Environmental Infrastructure Section 531	12.127	N/A	<u>309,984</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,345,784</u>

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of West Liberty, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of West Liberty, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of West Liberty, Kentucky.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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Paintsville, Kentucky 41240-1215

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**INDEPENDENT AUDITOR'S 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***

The Honorable Mark Walter, Mayor
Members of the City Council
City of West 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 West Liberty, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of West Liberty, Kentucky's basic financial statements and have issued our report thereon dated August 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of West 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 West Liberty, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-1 to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and questioned costs as 2013-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West 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*.

City of West Liberty, Kentucky's Response to Findings

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

Purpose of this Report

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 26, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mark Walter, Mayor
Members of the City Council
City of West Liberty, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of West Liberty, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of West Liberty, Kentucky's major federal programs for the year ended June 30, 2013. The City of West 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of West 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of West 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 West Liberty, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of West 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, 2013.

Report on Internal Control Over Compliance

Management of the City of West 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 West 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of West 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 26, 2013

**CITY OF WEST LIBERTY, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued *unqualified*:

Internal control over financial reporting:

- Material weakness(es) identified? X yes ___ no
- Significant deficiency(ies) identified? X yes ___ none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___ yes X no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Southern and Eastern Kentucky Environmental Infrastructure Section 531 Capitalization Grants for Clean Water State Revolving Funds	12.127 66.458
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468

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

Auditee qualified as low-risk auditee? ___ yes X no

**CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2013**

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FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2013 - 1 Segregation of Duties

Condition: Presently, the City has an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The City should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Recommendation: Mayor and City Council should continue its strong oversight.

Management Comment: Management of the City concurs with the finding and will continue strong oversight.

SIGNIFICANT DEFICIENCY

2013 - 2 Financial Reporting

Condition: There is a lack of adequate controls in financial accounting and reporting to properly prepare financial statements and disclosures according to generally accepted accounting principles.

Criteria: The Statement on Auditing Standards cites a significant deficiency if an entity is unable to prepare its own financial statements in accordance with Generally Accepted Accounting Principles (GAAP) including the disclosure notes.

Cause of Condition: The City's limited budget prevents the hiring of an individual with the accounting skills and knowledge to properly prepare financial statements.

Recommendation: The management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Comment: Management of the City concurs with the finding.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**CITY OF WEST LIBERTY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

There were no findings and recommendations for the year ended June 30, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 175,000	\$ 175,000	\$ 206,291	\$ 31,291
Taxes on insurance premiums	325,000	325,000	389,858	64,858
Occupational taxes and licenses	330,000	330,000	366,298	36,298
E911	75,000	75,000	69,374	(5,626)
Unloading license	3,750	3,750	4,700	950
Law enforcement fees	7,500	7,500	14,099	6,599
Telecom tax	7,200	7,200	12,236	5,036
Interest	-	-	765	765
Rent	22,000	22,000	15,828	(6,172)
Garbage fees	225,000	225,000	196,103	(28,897)
Fines and forfeits	-	-	1,450	1,450
Administrative	210,000	210,000	189,250	(20,750)
Contributions	-	-	6,619	6,619
Other receipts	35,000	35,000	3,925	(31,075)
	<u>1,415,450</u>	<u>1,415,450</u>	<u>1,476,796</u>	<u>61,346</u>
Total Revenues				
Expenditures:				
General government:				
Health and life insurance	60,000	60,000	55,039	4,961
Insurance	35,000	35,000	44,753	(9,753)
Interest	-	-	28,264	(28,264)
Garbage fees	213,750	213,750	181,266	32,484
Dues and subscriptions	2,000	2,000	3,432	(1,432)
Materials and supplies	3,000	3,000	6,340	(3,340)
Janitorial supplies	2,400	2,400	465	1,935
Mayor and city council fees	12,500	12,500	9,600	2,900
Other expenses	6,600	6,600	27,210	(20,610)
Office expenses	11,000	11,000	10,916	84
Professional fees	18,000	18,000	16,779	1,221
Postage	2,000	2,000	2,105	(105)
Repairs and maintenance	5,000	5,000	22,486	(17,486)
Retirement	22,000	22,000	28,072	(6,072)
Salaries and wages	158,000	158,000	170,876	(12,876)
Payroll taxes	12,000	12,000	13,565	(1,565)
Telephone and utilities	30,000	30,000	16,621	13,379
Travel and training	3,500	3,500	2,102	1,398
Capital outlays	-	-	183,663	(183,663)
	<u>596,750</u>	<u>596,750</u>	<u>823,554</u>	<u>(226,804)</u>
Total General Government				

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:				
Automobile	25,000	25,000	14,474	10,526
Health and life insurance	44,000	44,000	25,503	18,497
Insurance	48,000	48,000	31,772	16,228
Dues and subscriptions	3,000	3,000	1,315	1,685
Janitorial supplies	1,000	1,000	281	719
Materials and supplies	15,000	15,000	5,106	9,894
Other expenses	1,000	1,000	1,838	(838)
Office expenses	8,000	8,000	2,968	5,032
Professional fees	6,000	6,000	5,261	739
Repairs and maintenance	25,000	25,000	20,454	4,546
Retirement	54,000	54,000	37,630	16,370
Salaries and wages	237,000	237,000	176,667	60,333
Payroll tax	20,000	20,000	14,639	5,361
Telephone and utilities	18,000	18,000	19,377	(1,377)
Travel and training	5,000	5,000	4,182	818
Uniform allowance	4,000	4,000	1,869	2,131
Capital outlays	-	-	33,663	(33,663)
Total Police	514,000	514,000	396,999	117,001
Fire:				
Automobile	2,250	2,250	3,894	(1,644)
Insurance	7,500	7,500	9,591	(2,091)
Materials and supplies	5,500	5,500	48,966	(43,466)
Other expenses	13,000	13,000	6,863	6,137
Repairs and maintenance	10,000	10,000	18,900	(8,900)
Telephone and utilities	7,500	7,500	8,421	(921)
Travel and training	500	500	1,761	(1,261)
Capital outlays	-	-	44,386	(44,386)
Total Fire	46,250	46,250	142,782	(96,532)
Dispatch:				
Automobile	1,800	1,800	1,184	616
Health and life insurance	43,000	43,000	44,419	(1,419)
Insurance	5,000	5,000	2,406	2,594
Dues and subscriptions	6,500	6,500	7,476	(976)
Janitorial supplies	1,500	1,500	409	1,091
Materials and supplies	1,500	1,500	2,965	(1,465)
Other expenses	500	500	263	237
Office expenses	2,500	2,500	5,277	(2,777)
Professional fees	2,000	2,000	13,628	(11,628)
Repairs and maintenance	2,500	2,500	17,492	(14,992)

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Retirement	40,000	40,000	43,574	(3,574)
Salaries and wages	232,000	232,000	226,836	5,164
Payroll tax	16,000	16,000	17,386	(1,386)
Telephone and utilities	14,000	14,000	10,237	3,763
Travel and training	3,000	3,000	3,291	(291)
Uniform allowance	3,200	3,200	631	2,569
Capital outlays	-	-	210,086	(210,086)
Total Dispatch	<u>375,000</u>	<u>375,000</u>	<u>607,560</u>	<u>(232,560)</u>
Street:				
Automobile	5,500	5,500	4,540	960
Insurance	4,000	4,000	1,400	2,600
Other expenses	10,000	10,000	5,106	4,894
Materials and supplies	7,500	7,500	6,772	728
Repairs and maintenance	5,000	5,000	7,531	(2,531)
Utilities and telephone	23,000	23,000	25,697	(2,697)
Capital outlays	5,000	5,000	-	5,000
Total Street	<u>60,000</u>	<u>60,000</u>	<u>51,046</u>	<u>8,954</u>
Total Expenditures	<u>1,592,000</u>	<u>1,592,000</u>	<u>2,021,941</u>	<u>(429,941)</u>
Other Financing Sources/(Uses):				
Operating transfers in	175,000	175,000	181,426	6,426
Operating transfers out	-	-	(48,000)	(48,000)
Proceeds from insurance	-	-	162,378	162,378
Total Other Financing Uses	<u>175,000</u>	<u>175,000</u>	<u>295,804</u>	<u>120,804</u>
Special and extraordinary items:				
Tornado debris cleanup and repairs	-	-	(296,965)	(296,965)
Total Special and Extraordinary items	<u>-</u>	<u>-</u>	<u>(296,965)</u>	<u>(296,965)</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses) and Special and Extraordinary Items	<u>\$ (1,550)</u>	<u>\$ (1,550)</u>	<u>(546,306)</u>	<u>\$ (544,756)</u>
Fund Balance at Beginning of Year			<u>(228,341)</u>	
Fund Balance at End of Year			<u>\$ (774,647)</u>	

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 TOURISM AND PLANNING COMMISSION FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Restaurant tax	\$ 160,000	\$ 160,000	\$ 139,115	\$ (20,885)
Motel tax	15,000	15,000	8,880	(6,120)
Shelter income	2,000	2,000	1,440	(560)
Interest income	200	200	75	(125)
Other receipts	-	-	40,334	40,334
Total Revenues	<u>177,200</u>	<u>177,200</u>	<u>189,844</u>	<u>12,644</u>
Expenditures:				
Administrative	9,000	9,000	11,692	(2,692)
Donations	95,000	95,000	83,092	11,908
Dues and subscriptions	-	-	261	(261)
Materials and supplies	40,000	40,000	16,145	23,855
Other expenses	23,200	23,200	8,184	15,016
Office expenses	-	-	262	(262)
Salaries and wages	10,000	10,000	9,713	287
Repairs and maintenance	-	-	24,292	(24,292)
Capital outlays	-	-	167,643	(167,643)
Total Expenditures	<u>177,200</u>	<u>177,200</u>	<u>321,284</u>	<u>(144,084)</u>
Other Financing Sources/(Uses):				
Operating transfers out	-	-	(56,180)	(56,180)
Proceeds from insurance	-	-	204,801	204,801
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>148,621</u>	<u>148,621</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>17,181</u>	<u>\$ 17,181</u>
Fund Balance at Beginning of Year			<u>110,977</u>	
Fund Balance at End of Year			<u>\$ 128,158</u>	

See accompanying notes to basic financial statements.

SUPPLEMENTAL AND OTHER INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2013

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
ASSETS						
Cash	\$ 83,013	\$ 74,766	\$ -	\$ 57,358	\$ 4,890	\$ 220,027
Certificate of deposit	-	125,000	-	-	-	125,000
Due from Water, Sewer, Gas	122,159	-	-	-	-	122,159
Due from General Fund	125,000	-	-	-	-	125,000
Receivables	-	55	1,544	989	-	2,588
Total Assets	\$330,172	\$199,821	\$ 1,544	\$ 58,347	\$ 4,890	\$ 594,774
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ 1,459	\$ -	\$ 1,115	\$ 1,476	\$ 4,050
Due to General Fund	-	-	-	-	1,500	1,500
Other accrued liabilities	-	-	1,544	-	-	1,544
Total Liabilities	-	1,459	1,544	1,115	2,976	7,094
Fund Balances:						
Restricted for:						
Debt service	330,172	-	-	-	-	330,172
Public safety	-	-	-	-	1,914	1,914
Streets	-	-	-	57,232	-	57,232
Assigned to:						
Public safety	-	198,362	-	-	-	198,362
Total Fund Balances	330,172	198,362	-	57,232	1,914	587,680
Total Liabilities and Fund Balances	\$330,172	\$199,821	\$ 1,544	\$ 58,347	\$ 4,890	\$ 594,774

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
Revenues:						
Taxes	\$ -	\$ 24,374	\$ -	\$ 16,611	\$ -	\$ 40,985
Wireless collections	-	-	-	-	97,861	97,861
Intergovernmental revenues	-	17,750	16,007	156,379	-	190,136
Investment income	755	1,350	-	476	6	2,587
Total revenues	755	43,474	16,007	173,466	97,867	331,569
Expenditures:						
Public safety	-	11,072	16,007	-	32,707	59,786
Streets	-	-	-	52,464	-	52,464
Capital outlays	-	-	-	111,964	-	111,964
Debt service:						
Principal retirement	23,976	-	-	-	-	23,976
Interest	35,091	-	-	-	-	35,091
Total expenditures	59,067	11,072	16,007	164,428	32,707	283,281
Excess (deficiency) of revenues over expenditures	(58,312)	32,402	-	9,038	65,160	48,288
Other financing sources (uses):						
Operating transfers in	74,087	-	-	26,550	-	100,637
Operating transfers out	-	(109,110)	-	(3,057)	(65,716)	(177,883)
Proceeds from insurance	-	81,329	-	-	-	81,329
Total other financing sources (uses)	74,087	(27,781)	-	23,493	(65,716)	4,083
Net change in fund balances	15,775	4,621	-	32,531	(556)	52,371
Fund balances - beginning	314,397	193,741	-	24,701	2,470	535,309
Fund balances - ending	\$330,172	\$198,362	\$ -	\$ 57,232	\$ 1,914	\$ 587,680

**CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
BUSINESS-TYPE ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>SEWER</u>	<u>WATER</u>	<u>GAS</u>	<u>TOTAL</u>
Administrative	\$ 79,040	\$ 79,040	\$ 19,478	\$ 177,558
Automobile	13,220	11,126	7,549	31,895
Bad Debt	2,107	4,215	3,189	9,511
Chemicals	49,974	139,154	-	189,128
Depreciation	327,413	300,065	21,759	649,237
Dues and Subscriptions	1,423	4,326	2,218	7,967
Health and Life Insurance	53,271	48,808	10,759	112,838
Insurance	38,115	43,810	8,938	90,863
Materials and Supplies	19,482	11,195	37,709	68,386
Miscellaneous	2,749	1,071	1,001	4,821
Office Expenses	1,676	2,146	576	4,398
Postage	1,366	1,642	1,435	4,443
Professional Fees	8,983	10,463	9,006	28,452
Repairs and Maintenance	40,846	42,523	13,602	96,971
Retirement	43,835	47,157	14,070	105,062
Salaries and Wages	174,872	250,612	68,115	493,599
Payroll Taxes	17,556	19,387	5,486	42,429
Telephone and Utilities	116,759	134,727	1,148	252,634
Testing	14,679	9,566	-	24,245
Travel and Training	1,666	1,773	1,945	5,384
Uniform Allowance	3,186	2,176	257	5,619
TOTAL OPERATING EXPENSES	<u>\$ 1,012,218</u>	<u>\$ 1,164,982</u>	<u>\$ 228,240</u>	<u>\$ 2,405,440</u>

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

CITY COUNCIL

<u>NAME</u>	<u>TERM EXPIRES</u>
Belinda Jordan	December 31, 2014
Phyllis Keeton	December 31, 2014
John May	December 31, 2014
Dwayne Nickell	December 31, 2014
Tony Smith	December 31, 2014
Mark Walter	December 31, 2014

ADMINISTRATIVE PERSONNEL

<u>NAME</u>	
Jim Rupe	Mayor
Sally Barker	City Clerk
Sharon Lykins	Utilities Clerk
Amy Baldwin	Bookkeeper

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF INSURANCE
June 30, 2013

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COVERAGE

FIRE AND EXTENDED COVERAGE

Buildings and contents	\$	18,501,641
Schedule equipment		528,848

AUTOMOBILE EQUIPMENT

Liability coverage – per accident	\$	2,000,000
Uninsured motorist		100,000
Underinsured		100,000
Personal injury		10,000
Physical damage		Actual cash value or cost of repair, whichever is less, minus deductible

WORKMEN'S COMPENSATION

Statutory

GENERAL LIABILITY

Personal and advertising injury	\$	5,000,000
Hazardous response		5,000,000
Employee benefits liability		5,000,000
Fire damage		100,000
Medical expenses		5,000

PUBLIC OFFICIALS' LIABILITY

\$ 5,000,000

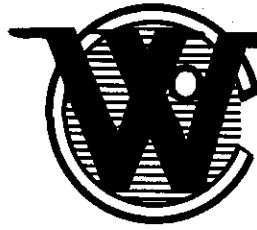
LAW ENFORCEMENT LIABILITY

\$ 2,000,000

PUBLIC OFFICIAL BONDS

Jim Rupe	\$	75,000
Sally Barker		120,000
Amy Baldwin		75,000
Sharon Lykins		75,000

MANAGEMENT LETTER



WELLS & COMPANY, P.S.C.

Certified Public Accountants
865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588
Fax (606) 789-3326

August 26, 2013

Mark Walter, Mayor
Members of the City Council
West Liberty, Kentucky

In planning and performing our audit of the financial statements of the City of West Liberty, Kentucky ("City") for the year ended June 30, 2013, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of several matters that needs to be brought to management's attention. We previously reported on the City's internal control in our report dated August 26, 2013. This letter does not affect our report dated August 26, 2013 on the financial statements of the City of West Liberty, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, or to perform any additional study of these matters. Our comments are summarized as follows:

Fund Deficit

The audited financial statement of the City shows a fund deficit of \$774,647 in the General Fund. The City's General Fund had a decrease in fund balance of \$546,306 for fiscal year ended June 30, 2013. The reason for the fund deficit is due to the City's continued expenses incurred from tornado cleanup and repairs. Additional revenues from FEMA, the Community Emergency Relief Fund (CERF), and insurance are expected to reduce the deficit in fiscal year 2013-2014. If the aforementioned revenues do not eliminate the deficit completely then the City will need to look at sources of new revenues such as an increase in property taxes or occupational taxes as example, to get back on solid financial footing.

Purchases

The City had unpaid invoices at June 30, 2013 that were more than thirty days old. KRS 65.140 states that all bills for goods and services shall be paid within thirty days of receipt of a vendor's invoice. The reason for the past due invoices is because of the financial burden caused by the tornado that passed

through the City on March 2, 2012. The City needs to continue to get caught up paying invoices as more FEMA, CERF, and insurance proceeds come in. Again, if FEMA, CERF, and insurance proceeds are not enough for the City to get current with past due invoices then additional sources of revenue may eventually be needed.

Reserves

The City's operations and maintenance, and depreciation reserves for water and sewer and the depreciation reserve for the general fund were underfunded as of June 30, 2013 by \$95,893, \$226,105, and \$26,458 respectively. The City should have an operations and maintenance reserve on hand to cover anticipated water and sewer expenditures for a two month period pursuant to the City's annual budget. Also, the City should have depreciation reserves sufficiently funded per bond covenants. The City needs to fund all reserves to required levels as funds become available.

We wish to thank the City's staff for their support and assistance during our audit.

This report is intended solely for the information and use of the City Council, Mayor, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 26, 2013