

CITY OF WEST LIBERTY, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2014



WELLS & COMPANY, R.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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Other Matters

Required Supplementary Information

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 37-40 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 October 27, 2014 on our consideration of the City of West Liberty, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of West Liberty, Kentucky's internal control over financial reporting and compliance.

Welch - Company, P.S.C.

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 272,843 | \$ 286,510 | \$ 559,353 |
| Certificates of deposit | 125,626 | - | 125,626 |
| Taxes receivable | 19,679 | - | 19,679 |
| Accounts receivable | 18,273 | 204,962 | 223,235 |
| Interest receivable | - | - | - |
| Grants receivable | 149,721 | 200,639 | 350,360 |
| Other receivables | 1,898 | - | 1,898 |
| Internal balances | 220,382 | (220,382) | - |
| Unbilled revenues | - | 92,489 | 92,489 |
| Inventory | - | 118,859 | 118,859 |
| Prepaid expenses | 9,493 | 8,544 | 18,037 |
| Capital assets: | | | |
| Land and construction-in-progress | 302,836 | 1,341,280 | 1,644,116 |
| Other capital assets, net of accumulated depreciation | 2,491,801 | 15,122,194 | 17,613,995 |
| Total Assets | 3,612,552 | 17,155,095 | 20,767,647 |
| LIABILITIES | | | |
| Accounts payable | 67,180 | 145,616 | 212,796 |
| Retainage payable | - | 34,913 | 34,913 |
| Accrued payroll | 14,176 | 14,313 | 28,489 |
| Accrued payroll taxes | 8,054 | 2,799 | 10,853 |
| Accrued vacation | 36,245 | 38,480 | 74,725 |
| Accrued interest | 4,950 | 31,141 | 36,091 |
| Other accrued liabilities | 12,354 | 14,925 | 27,279 |
| Short-term notes payable | 858,935 | 280,876 | 1,139,811 |
| Long-term liabilities: | | | |
| Due within one year | 39,287 | 147,602 | 186,889 |
| Due in more than one year | 454,745 | 4,345,935 | 4,800,680 |
| Total Liabilities | 1,495,926 | 5,056,600 | 6,552,526 |
| NET POSITION | | | |
| Net investment in capital assets | 2,300,605 | 11,770,477 | 14,071,082 |
| Restricted for: | | | |
| Depreciation | - | 40,355 | 40,355 |
| Fire service | 155,749 | - | 155,749 |
| Highways and streets | 32,439 | - | 32,439 |
| Tourism | 63,194 | - | 63,194 |
| 911 dispatch | 9,861 | - | 9,861 |
| Debt service | 311,032 | 98,870 | 409,902 |
| Unrestricted | (756,254) | 188,793 | (567,461) |
| Total Net Position | \$ 2,116,626 | \$ 12,098,495 | \$ 14,215,121 |

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| 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 |
| Primary Government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 618,533 | \$ 207,314 | \$ - | \$ - | \$ (411,219) | \$ - |
| Public safety | 1,013,491 | 178,657 | 8,250 | 47,950 | (778,634) | - |
| Streets | 209,269 | - | - | - | (209,269) | - |
| Tourism and planning | 168,542 | - | - | - | (168,542) | - |
| Interest on long-term debt | 51,268 | - | - | - | (51,268) | - |
| Total governmental activities | 2,061,103 | 385,971 | 8,250 | 47,950 | (1,618,932) | - |
| Business-type activities: | | | | | | |
| Water, Sewer, Gas | 3,162,760 | 2,521,507 | - | 601,472 | - | (39,781) |
| Total business-type activities | 3,162,760 | 2,521,507 | - | 601,472 | - | (39,781) |
| Total primary government | \$ 5,223,863 | \$ 2,907,478 | \$ 8,250 | \$ 649,422 | (1,618,932) | (39,781) |
| | | | | | | |
| General revenues: | | | | | | |
| Property taxes | | | | 175,828 | - | 175,828 |
| Fire taxes | | | | 20,068 | - | 20,068 |
| Insurance premium taxes | | | | 405,121 | - | 405,121 |
| Occupational taxes and licenses | | | | 353,738 | - | 353,738 |
| Motor vehicle taxes | | | | 16,721 | - | 16,721 |
| Restaurant taxes | | | | 146,851 | - | 146,851 |
| Other taxes | | | | 19,560 | - | 19,560 |
| Licenses and permits | | | | 2,600 | - | 2,600 |
| Administrative | | | | 117,321 | - | 117,321 |
| Intergovernmental revenue | | | | 141,091 | - | 141,091 |
| Interest income | | | | 2,428 | 676 | 3,104 |
| Rental income | | | | 20,334 | - | 20,334 |
| Insurance proceeds | | | | 42,174 | - | 42,174 |
| Miscellaneous | | | | 21,528 | - | 21,528 |
| Total general revenues and transfers | | | | 1,485,363 | 676 | 1,486,039 |
| Change in net position | | | | (133,569) | (39,105) | (172,674) |
| Net position - beginning | | | | 2,250,195 | 12,137,600 | 14,387,795 |
| Net position - ending | | | | \$ 2,116,626 | \$ 12,098,495 | \$ 14,215,121 |

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General Fund | Tourism and Planning | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 79,800 | \$ 63,374 | \$ 129,669 | \$ 272,843 |
| Certificate of deposit | - | - | 125,626 | 125,626 |
| Due from Water, Sewer, Gas | 88,722 | - | 131,660 | 220,382 |
| Due from Fire Tax Fund | 1,218 | - | - | 1,218 |
| Due from General Fund | - | - | 125,000 | 125,000 |
| Receivables: | | | | |
| Property taxes | 433 | - | - | 433 |
| Grants | 149,721 | - | - | 149,721 |
| Other | 18,273 | - | 1,898 | 20,171 |
| Prepaid expenses | 9,493 | - | - | 9,493 |
| Total Assets | \$ 347,860 | \$ 63,374 | \$ 513,853 | \$ 924,887 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 65,289 | \$ 180 | \$ 1,711 | \$ 67,180 |
| Accrued payroll | 14,176 | - | - | 14,176 |
| Accrued payroll taxes | 8,054 | - | - | 8,054 |
| Accrued vacation | 36,245 | - | - | 36,245 |
| Other accrued liabilities | 10,511 | - | 1,843 | 12,354 |
| Short-term notes payable | 858,935 | - | - | 858,935 |
| Due to General Fund | - | - | 1,218 | 1,218 |
| Due to Debt Service Fund | 125,000 | - | - | 125,000 |
| Total Liabilities | 1,118,210 | 180 | 4,772 | 1,123,162 |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Debt service | - | - | 311,032 | 311,032 |
| Public safety | - | - | 9,861 | 9,861 |
| Streets | - | - | 32,439 | 32,439 |
| Tourism | - | 63,194 | - | 63,194 |
| Assigned to: | | | | |
| Public safety | - | - | 155,749 | 155,749 |
| Unassigned: | | | | |
| General fund | (770,550) | - | - | (770,550) |
| Total Fund Balances | (770,550) | 63,194 | 509,081 | (198,275) |
| Total Liabilities and Fund Balances | \$ 347,660 | \$ 63,374 | \$ 513,853 | \$ 924,887 |

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, 2014**

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| | |
|--|----------------------------|
| Fund Balances - Total Governmental Funds | \$ (198,275) |
| 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 | 5,444,281 |
| Less: accumulated depreciation | (2,649,644) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | |
| | (494,032) |
| 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. | |
| | (4,950) |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| Delinquent property taxes | <u>19,246</u> |
| Net Position of Governmental Activities | <u>\$ 2,116,626</u> |

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, 2014**

| | <u>General Fund</u> | <u>Tourism and Planning</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------------------|---|---|
| Revenues: | | | | |
| Taxes: | | | | |
| Property | \$ 174,764 | \$ - | \$ - | \$ 174,764 |
| Insurance premium | 405,121 | - | - | 405,121 |
| Occupational taxes and licenses | 353,738 | - | - | 353,738 |
| Motor vehicle | - | - | 16,721 | 16,721 |
| Telecom | 12,235 | - | - | 12,235 |
| Fire | - | - | 20,068 | 20,068 |
| Restaurant | - | 146,851 | - | 146,851 |
| Motel | - | 7,325 | - | 7,325 |
| E-911 | 67,758 | - | - | 67,758 |
| Shelter income | - | 2,335 | - | 2,335 |
| Wireless collections | - | - | 110,899 | 110,899 |
| Administrative | 117,321 | - | - | 117,321 |
| Licenses and permits | 2,600 | - | - | 2,600 |
| Intergovernmental revenues | 12,158 | - | 185,133 | 197,291 |
| Charges for garbage services | 207,314 | - | - | 207,314 |
| Rental income | 20,334 | - | - | 20,334 |
| Fines and forfeits | 4,679 | - | - | 4,679 |
| Interest income | 803 | 55 | 1,570 | 2,428 |
| Contributions | 1,375 | - | - | 1,375 |
| Miscellaneous revenues | 3,338 | 9,801 | - | 13,139 |
| Total revenues | <u>1,383,538</u> | <u>166,367</u> | <u>334,391</u> | <u>1,884,296</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 595,251 | - | - | 595,251 |
| Public safety | 802,045 | - | 82,364 | 884,409 |
| Streets | 56,686 | - | 69,053 | 125,739 |
| Tourism and planning | - | 131,244 | - | 131,244 |
| Debt service: | | | | |
| Principal retirement | - | - | 40,080 | 40,080 |
| Interest | 27,942 | - | 24,001 | 51,943 |
| Capital outlay | - | 100,087 | 137,183 | 237,270 |
| Total expenditures | <u>1,481,924</u> | <u>231,331</u> | <u>352,681</u> | <u>2,065,936</u> |
| Excess (deficiency) of revenues over expenditures | (98,386) | (64,964) | (18,290) | (181,640) |
| Other financing sources (uses): | | | | |
| Operating transfers in | 108,309 | - | 78,301 | 186,610 |
| Operating transfers out | (48,000) | - | (138,610) | (186,610) |
| Proceeds from insurance | 42,174 | - | - | 42,174 |
| Total other financing sources (uses) | <u>102,483</u> | <u>-</u> | <u>(60,309)</u> | <u>42,174</u> |
| Net change in fund balances | 4,097 | (64,964) | (78,599) | (139,466) |
| Fund balances - beginning | <u>(774,647)</u> | <u>128,158</u> | <u>587,680</u> | <u>(58,809)</u> |
| Fund balances - ending | <u>\$ (770,550)</u> | <u>\$ 63,194</u> | <u>\$ 509,081</u> | <u>\$ (198,275)</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, 2014**

Net Change in Fund Balances - Total Governmental Funds **\$(139,466)**

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 | 237,270 |
| Depreciation expense | (273,192) |

The net effect of various miscellaneous transactions involving capital assets:

-

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 | 1,064 |
|---------------------------------------|-------|

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.

675

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>40,080</u> |
|---------------|---------------|

Change in Net Position of Governmental Activities **\$(133,569)**

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET POSITION
 BUSINESS-TYPE ACTIVITY
 JUNE 30, 2014

| | <u>Water, Sewer, Gas</u> |
|--|--------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 147,284 |
| Accounts receivable, no allowance considered necessary | 204,962 |
| Grants receivable | 200,639 |
| Unbilled receivables | 92,489 |
| Inventory | 118,859 |
| Prepaid expenses | <u>8,544</u> |
| Total current assets | <u>772,777</u> |
| Non-current assets: | |
| Restricted assets: | |
| Cash and cash equivalents | <u>139,226</u> |
| Total restricted assets | <u>139,226</u> |
| Utility Plant: | |
| Plant in service | 25,789,564 |
| Less accumulated depreciation | <u>(10,584,456)</u> |
| | 15,205,108 |
| Construction work in progress | <u>1,258,366</u> |
| Net utility plant | <u>16,463,474</u> |
| Total assets | <u>17,375,477</u> |

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET POSITION (Continued)
 BUSINESS-TYPE ACTIVITY
 JUNE 30, 2014

| | <u>Water, Sewer, Gas</u> |
|--|--------------------------|
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 145,616 |
| Retainage payable | 34,913 |
| Accrued payroll | 14,313 |
| Accrued payroll taxes | 2,799 |
| Accrued vacation | 38,480 |
| Accrued interest payable | 31,141 |
| Due to general fund | 88,722 |
| Due to debt service fund | 131,660 |
| Short-term notes payable | 280,876 |
| Other accrued liabilities | 14,925 |
| Current portion of long-term liabilities | <u>147,602</u> |
| Total current liabilities | <u>931,047</u> |
| Long-term liabilities: | |
| Construction advances | 724,385 |
| Long-term debt | 3,778,647 |
| Unamortized discount | <u>(9,495)</u> |
| | 4,493,537 |
| Less current portion | <u>(147,602)</u> |
| Total long-term liabilities | <u>4,345,935</u> |
| Total liabilities | <u>5,276,982</u> |
| NET POSITION: | |
| Net investment in capital assets | 11,770,477 |
| Restricted for: | |
| Debt service | 62,961 |
| Depreciation | 57,840 |
| Unrestricted | <u>207,217</u> |
| Total net position | <u>\$ 12,098,495</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, 2014**

| | <u>Water, Sewer, Gas</u> |
|---|-----------------------------|
| Operating revenues: | |
| Sewer revenues | \$ 663,563 |
| Water revenues | 1,012,333 |
| Gas revenues | 779,278 |
| Other operating revenues | <u>66,333</u> |
| Total operating revenues | 2,521,507 |
| Cost of sales - gas purchases | <u>448,604</u> |
| Net operating revenues | <u>2,072,903</u> |
| Operating expenses: | |
| Sewer | 1,076,273 |
| Water | 1,227,561 |
| Gas | <u>240,839</u> |
| Total operating expenses | <u>2,544,673</u> |
| Utility operating income (loss) | <u>(471,770)</u> |
| Non-operating revenues (expenses): | |
| Interest income | 676 |
| Interest expense | <u>(169,483)</u> |
| Total non-operating revenues (expenses) | <u>(168,807)</u> |
| Net income (loss) before contributions from (to) | (640,577) |
| Contributions in aid of construction | <u>601,472</u> |
| Change in net position | (39,105) |
| Net position, beginning of year | <u>12,137,600</u> |
| Net position, end of year | <u>\$ 12,098,495</u> |

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF CASH FLOWS
 BUSINESS-TYPE ACTIVITY
 YEAR ENDED JUNE 30, 2014

| | <u>Water, Sewer, Gas</u> |
|---|--------------------------|
| Cash flows from operating activities: | |
| Cash inflows: | |
| Payments received from customers | \$ 2,475,200 |
| Total cash provided | <u>2,475,200</u> |
| Cash outflows: | |
| Payments for salaries and benefits | 782,968 |
| Payments to suppliers for goods and services | <u>1,421,000</u> |
| Total cash used | <u>2,203,968</u> |
| Net cash provided (used) by operating activities | <u>271,232</u> |
| Cash flows from noncapital financing activities: | |
| Repayment of amounts due other funds | <u>(246,115)</u> |
| Net cash provided (used) by noncapital financing activities | <u>(246,115)</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (1,859,205) |
| Capital contributions received | 1,056,537 |
| Principal payments on debt | (147,361) |
| Proceeds from loans | 824,385 |
| Interest paid on long-term debt | <u>(170,822)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(296,466)</u> |
| Cash flows from investing activities: | |
| Interest received | <u>686</u> |
| Net cash provided (used) by investing activities | <u>686</u> |
| Net cash inflow (outflow) from all activities | (270,663) |
| Cash and cash equivalents at beginning of period | <u>557,173</u> |
| Cash and cash equivalents at end of period | <u>\$ 286,510</u> |

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS (Continued)
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2014**

Water, Sewer, Gas

**Reconciliation of utility operating income to
net cash provided by operating activities:**

| | |
|---|--------------|
| Utility operating income | \$ (471,770) |
| Depreciation | 727,182 |
| (Increase) decrease in: | |
| Accounts receivable | (29,580) |
| Unbilled revenue | (16,727) |
| Inventory | 41,031 |
| Other assets | (8,544) |
| Increase (decrease) in: | |
| Accounts payable | 26,203 |
| Accrued liabilities and other liabilities | 3,437 |

Net cash provided (used) by operating activities

\$ 271,232

Schedule of cash:

Beginning of period:

| | |
|--|------------|
| Unrestricted cash and cash equivalents | \$ 286,162 |
| Restricted cash and cash equivalents | 271,011 |

\$ 557,173

End of period:

| | |
|--|------------|
| Unrestricted cash and cash equivalents | \$ 147,284 |
| Restricted cash and cash equivalents | 139,226 |

\$ 286,510

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). As permitted by generally accepted accounting principals, the City's Proprietary Funds has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations. 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

Cash includes amounts in bank accounts. The only investments include certificates of deposit. The investments are reported at cost which reasonably estimates fair value.

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, 2014 was \$1,110,213; the City's total payroll was \$1,137,539.

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 18.89% for all covered employees. The contribution requirement for the year ended June 30, 2014 was \$267,313, which consisted of \$209,719 from the City and \$57,594 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, 2014 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 | \$757,096 | \$340,414 | \$416,682 | \$ - | \$684,979 |

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 2013 were levied on \$225,637,932 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, 2014, consisted of the following:

Governmental Activities

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2014</u> |
|--|---------------------------------|------------------|--------------------|----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 210,136 | \$ 92,700 | \$ - | \$ 302,836 |

NOTE 4. CAPITAL ASSETS (Continued)

| | | | | |
|--|--------------------|--------------------|-------------|--------------------|
| Construction in progress | - | - | - | - |
| Total capital assets, not being depreciated | <u>210,136</u> | <u>92,700</u> | <u>-</u> | <u>302,836</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,432,848 | 3,075 | - | 1,435,923 |
| Improvements other than buildings | 733,814 | - | - | 733,814 |
| Infrastructure | 762,225 | 82,544 | - | 844,769 |
| Automobiles and trucks | 555,017 | - | - | 555,017 |
| Machinery and equipment | <u>1,512,971</u> | <u>58,951</u> | <u>-</u> | <u>1,571,922</u> |
| Total capital assets being depreciated | 4,996,875 | 144,570 | - | 5,141,445 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (243,809) | (30,799) | - | (274,608) |
| Improvements other than buildings | (431,188) | (31,566) | - | (462,754) |
| Infrastructure | (350,629) | (75,895) | - | (426,524) |
| Automobiles and trucks | (379,621) | (21,542) | - | (401,163) |
| Machinery and equipment | <u>(971,205)</u> | <u>(113,390)</u> | <u>-</u> | <u>(1,084,595)</u> |
| Total accumulated depreciation | <u>(2,376,452)</u> | <u>(273,192)</u> | <u>-</u> | <u>(2,649,644)</u> |
| Total capital assets being depreciated, net | <u>2,620,423</u> | <u>(128,622)</u> | <u>-</u> | <u>2,491,801</u> |
| Governmental activities capital assets, net | <u>\$2,830,559</u> | <u>\$ (35,922)</u> | <u>\$ -</u> | <u>\$2,794,637</u> |

Depreciation was charged to governmental functions as follows:

| | |
|----------------------|-------------------|
| General government | \$ 23,282 |
| Public safety | 129,082 |
| Tourism and planning | 37,298 |
| Streets | 83,530 |
| Total | <u>\$ 273,192</u> |

Business-Type Activities

| | <u>Balance</u> <u>July 1, 2013</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2014</u> |
|--|---------------------------------------|------------------|--------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 82,914 | \$ - | \$ - | \$ 82,914 |
| Construction in progress | <u>3,819,878</u> | <u>1,166,839</u> | <u>3,728,351</u> | <u>1,258,366</u> |
| Total capital assets, not being depreciated | <u>3,902,792</u> | <u>1,166,839</u> | <u>3,728,351</u> | <u>1,341,280</u> |
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | 1,000 | - | - | 1,000 |
| Machinery and equipment | 943,683 | - | - | 943,683 |

NOTE 4. CAPITAL ASSETS (Continued)

| | | | | |
|--|----------------------------|---------------------------|---------------------------|----------------------------|
| Water plant and water system | 9,412,671 | 1,438,261 | - | 10,850,932 |
| Sewer plant and sewer system | 10,592,935 | 2,290,090 | - | 12,883,025 |
| Gas system | <u>1,008,067</u> | <u>19,943</u> | <u>-</u> | <u>1,028,010</u> |
| Total capital assets being depreciated | 21,958,356 | 3,748,294 | - | 25,706,650 |
| Less accumulated depreciation for: | | | | |
| Leasehold improvements | (688) | (31) | - | (719) |
| Machinery and equipment | (734,926) | (35,153) | - | (770,079) |
| Water plant and water system | (4,323,706) | (308,993) | - | (4,632,699) |
| Sewer plant and sewer system | (4,749,992) | (362,844) | - | (5,112,836) |
| Gas system | <u>(47,962)</u> | <u>(20,161)</u> | <u>-</u> | <u>(68,123)</u> |
| Total accumulated depreciation | <u>(9,857,274)</u> | <u>(727,182)</u> | <u>-</u> | <u>(10,584,456)</u> |
| Total capital assets being depreciated, net | <u>12,101,082</u> | <u>3,021,112</u> | <u>-</u> | <u>15,122,194</u> |
| Total utilities capital assets, net | <u>\$16,003,874</u> | <u>\$4,187,951</u> | <u>\$3,728,351</u> | <u>\$16,463,474</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.

NOTE 5: LONG-TERM DEBT (Continued)

Total bond interest expense for the year ended June 30, 2014, amounted to \$149,433.

The Water, Sewer, and Gas Proprietary Fund notes payable at June 30, 2014 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 6/30/2013 | Additions | Deductions | Amount Outstanding 6/30/2014 | Amounts Due Within One Year |
|-------------------------------------|------------------------------------|-------------|--------------------|------------------------------------|-----------------------------------|
| Bond payable – 1988 issue | \$ 371,000 | \$ - | \$ (16,000) | \$ 355,000 | \$ 16,000 |
| Bond payable – 1998 issue | 389,500 | - | (7,000) | 382,500 | 7,500 |
| Bond payable – 2001 issue (A) | 858,000 | - | (18,000) | 840,000 | 19,000 |
| Bond payable – 2001 issue (B) | 248,500 | - | (4,500) | 244,000 | 4,500 |
| Bond payable – 2006 issue | 753,000 | - | (11,000) | 742,000 | 11,500 |
| Bond payable – 2007 issue | 375,500 | - | (5,500) | 370,000 | 6,000 |
| Bond payable – 2010 issue | 710,000 | - | (15,000) | 695,000 | 15,000 |
| Note payable – KIA | 72,412 | - | (17,779) | 54,633 | 17,993 |
| Note payable – Commercial Bank | 23,247 | - | (5,200) | 18,047 | 18,047 |
| Note payable – Community Trust Bank | 106,261 | - | (28,794) | 77,467 | 32,062 |
| | <u>3,907,420</u> | <u>-</u> | <u>(128,773)</u> | <u>3,778,647</u> | <u>147,602</u> |
| Unamortized bond discount | (9,658) | - | 163 | (9,495) | - |
| Long-Term Debt | <u>\$3,897,762</u> | <u>\$ -</u> | <u>\$(128,610)</u> | <u>\$3,769,152</u> | <u>\$147,602</u> |

Principal and interest payments to be made on all long-term debt at June 30, 2014, for each of the next five years and thereafter are as follows:

| Year Ending 6/30 | Bonds | Notes | Total Principal | Total Interest | Total |
|---------------------|-----------|-----------|--------------------|-------------------|------------|
| 2015 | \$ 79,500 | \$ 68,102 | \$ 147,602 | \$ 152,213 | \$ 299,815 |
| 2016 | 82,000 | 51,836 | 133,836 | 146,348 | 280,184 |
| 2017 | 85,000 | 30,209 | 115,209 | 140,704 | 255,913 |
| 2018 | 93,500 | - | 93,500 | 136,873 | 230,373 |
| 2019 | 96,000 | - | 96,000 | 133,100 | 229,100 |
| 2020-2024 | 531,500 | - | 531,500 | 603,942 | 1,135,442 |
| 2025-2029 | 659,500 | - | 659,500 | 481,819 | 1,141,319 |
| 2030-2034 | 623,500 | - | 623,500 | 350,030 | 973,530 |
| 2035-2039 | 758,500 | - | 758,500 | 210,470 | 968,970 |

NOTE 5: LONG-TERM DEBT (Continued)

| | | | | | |
|-----------|--------------------|------------------|--------------------|--------------------|--------------------|
| 2040-2044 | 503,000 | - | 503,000 | 64,161 | \$67,161 |
| 2045-2046 | <u>116,500</u> | <u>-</u> | <u>116,500</u> | <u>4,775</u> | <u>121,275</u> |
| | <u>\$3,628,500</u> | <u>\$150,147</u> | <u>\$3,778,647</u> | <u>\$2,424,435</u> | <u>\$6,203,082</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, 2014, amounted to \$11,250.

The City's notes payable at June 30, 2014 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 6/30/2013 | Additions | Deductions | Amount Outstanding 6/30/2014 | Amounts Due Within One Year |
|-----------------------------|------------------------------------|-------------|-------------------|------------------------------------|-----------------------------------|
| Bond payable – series A | \$140,000 | \$ - | \$(17,000) | \$123,000 | \$18,000 |
| Bond payable – series B | 47,500 | - | (5,500) | 42,000 | 6,000 |
| Note payable – Fire Station | <u>346,613</u> | <u>-</u> | <u>(17,581)</u> | <u>329,032</u> | <u>16,787</u> |
| Long-Term Debt | <u>\$534,113</u> | <u>\$ -</u> | <u>\$(40,081)</u> | <u>\$494,032</u> | <u>\$40,787</u> |

Principal and interest payments to be made on all long-term debt at June 30, 2014, for each of the next five years and thereafter are as follows:

| Year Ending 6/30 | Bonds | Notes | Total Principal | Total Interest | Total |
|---------------------|------------------|------------------|--------------------|-------------------|------------------|
| 2015 | \$ 24,000 | \$ 16,787 | \$ 40,787 | \$ 23,434 | \$ 64,221 |
| 2016 | 25,500 | 19,051 | 44,551 | 21,246 | 65,797 |
| 2017 | 27,000 | 19,901 | 46,901 | 18,884 | 65,785 |
| 2018 | 28,000 | 20,754 | 48,754 | 16,393 | 65,147 |
| 2019 | 29,500 | 21,642 | 51,142 | 13,824 | 64,966 |
| 2020-2024 | 31,000 | 122,887 | 153,887 | 38,155 | 192,042 |
| 2025-2028 | - | 108,010 | 108,010 | 8,723 | 116,733 |
| | <u>\$165,000</u> | <u>\$329,032</u> | <u>\$494,032</u> | <u>\$140,659</u> | <u>\$634,691</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, 2014 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 water system improvement projects. The future loan to the City is \$1,145,643 of which \$724,385 was received through June 30, 2014. 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.

NOTE 6 – SHORT TERM NOTES PAYABLE

On June 15, 2014, the City refinanced Revenue Bond Anticipation Note, Series 2013 into General Bond Anticipation Note Series 2014 for tornado disaster cleanup in the amount of \$858,935 at a 3.62% interest rate. The original financing was \$1 million. The note matures on June 15, 2015.

On June 15, 2014, the City refinanced Revenue Bond Anticipation Note, Series 2013 into General Bond Anticipation Note Series 2014 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, 2015.

In January 2014, the City borrowed \$100,000 at 4.25% interest from Commercial Bank for working capital to pay vendor invoices. The loan agreement provides for one payment of principal and all accrued interest due January 20, 2015. The City has made interim payments and the balance at June 30, 2014 was \$81,413.

The summary of the notes transactions for the fiscal year ended June 30, 2014, is as follows:

| | Beginning Balance <u>6/30/2013</u> | <u>Additions</u> | <u>Deductions</u> | Ending Balance <u>6/30/14</u> |
|---|---|---------------------------|-----------------------------|--|
| Revenue Bond Anticipation Note, Series 2013 | \$ 858,934 | \$ - | \$ (858,934) | \$ - |
| Revenue Bond Anticipation Note, Series 2013 | 199,463 | - | (199,463) | - |
| Revenue Bond Anticipation Note, Series 2013 | 915,000 | - | (915,000) | - |
| General Bond Anticipation Note, Series 2014 | - | 858,935 | - | 858,935 |
| General Bond Anticipation Note, Series 2014 | - | 199,463 | - | 199,463 |
| Working Capital Loan, Commercial Bank | - | <u>100,000</u> | <u>(18,587)</u> | <u>81,413</u> |
| Short Term Debt | <u>\$1,973,397</u> | <u>\$1,158,398</u> | <u>\$(1,991,984)</u> | <u>\$1,139,811</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 | \$ 74,553 |
| | Debt Service Fund | Operating | 33,756 |
| Debt Service Fund | General Fund | Debt Service | 48,000 |
| | Fire Tax Fund | Debt Service | 30,301 |
| Subtotal – Fund Financial Statements | | | 186,610 |
| Less: Fund Eliminations | | | <u>(186,610)</u> |
| 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 | Fire Tax Fund | \$ 1,218 |
| | Water, Gas, Sewer | 88,722 |
| Debt Service Fund | General Fund | 125,000 |
| | Water, Gas, Sewer | 131,660 |

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 \$62,961 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 \$17,485 is being held in an interest bearing account at the Commercial Bank of West Liberty.

General Fund Bond Sinking Fund in the amount of \$50,159 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 \$4,213 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.

NOTE 8 – RESTRICTIONS ON CASH (Continued)

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 \$40,355.

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 \$770,550 at June 30, 2014. The deficit is a result of recovery expenses related to the March 2012 tornado. Additional revenues from FEMA and the Community Emergency Relief Fund (CERF) are expected to reduce the deficit in fiscal year 2014-2015.

NOTE 12 – SUBSEQUENT EVENT

Financial Reporting for Pension Plans

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

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not

NOTE 12 -- SUBSEQUENT EVENT (Continued)

been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

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

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of West Liberty's unfunded liability would be approximately \$2,500,000, based on the 2011 actuarial analysis. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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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, 2014, 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 October 27, 2014.

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 2014-1 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 2014-2 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.

Nelk & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014



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, 2014. 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, 2014.

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.

Well & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued *unmodified*:

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major federal programs:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number(s)</u> |
|--|-----------------------|
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 |
| Dollar threshold used to distinguish between type A and type B programs: | <u>\$ 300,000</u> |

Auditee qualified as low-risk auditee? yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014 – 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 their strong oversight.

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

SIGNIFICANT DEFICIENCY

2014 - 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**CITY OF WEST LIBERTY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

There were no findings and recommendations for the year ended June 30, 2013.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|----------------------------|-------------------------|------------------|---|
| Revenues: | | | | |
| Property taxes | \$ 175,000 | \$ 175,000 | \$ 174,764 | \$ (236) |
| Taxes on insurance premiums | 320,000 | 320,000 | 405,121 | 85,121 |
| Occupational taxes and licenses | 350,000 | 350,000 | 353,738 | 3,738 |
| E911 | 72,000 | 72,000 | 67,758 | (4,242) |
| Unloading license | 7,500 | 7,500 | 2,600 | (4,900) |
| Law enforcement fees | 10,000 | 10,000 | 6,345 | (3,655) |
| Telecom tax | 10,000 | 10,000 | 12,235 | 2,235 |
| Interest | - | - | 803 | 803 |
| Rent | 22,000 | 22,000 | 20,334 | (1,666) |
| Garbage fees | 225,000 | 225,000 | 207,314 | (17,686) |
| Fines and forfeits | - | - | 4,679 | 4,679 |
| Administrative | 240,000 | 240,000 | 117,321 | (122,679) |
| Contributions | - | - | 1,375 | 1,375 |
| Grants | - | - | 5,813 | 5,813 |
| Other receipts | 21,500 | 21,500 | 3,338 | (18,162) |
| Total Revenues | 1,453,000 | 1,453,000 | 1,383,538 | (69,462) |
| Expenditures: | | | | |
| General government: | | | | |
| Health and life insurance | 62,000 | 62,000 | 60,142 | 1,858 |
| Insurance | 34,500 | 34,500 | 53,710 | (19,210) |
| Interest | - | - | 27,942 | (27,942) |
| Garbage fees | 213,750 | 213,750 | 193,941 | 19,809 |
| Dues and subscriptions | 2,000 | 2,000 | 6,516 | (4,516) |
| Materials and supplies | 3,000 | 3,000 | 2,135 | 865 |
| Janitorial supplies | 1,200 | 1,200 | 330 | 870 |
| Mayor and city council fees | 10,000 | 10,000 | 9,200 | 800 |
| Other expenses | 6,600 | 6,600 | 27,884 | (21,284) |
| Office expenses | 12,000 | 12,000 | 8,305 | 3,695 |
| Professional fees | 12,000 | 12,000 | 11,240 | 760 |
| Postage | 2,000 | 2,000 | 2,105 | (105) |
| Repairs and maintenance | 5,000 | 5,000 | 10,899 | (5,899) |
| Retirement | 22,000 | 22,000 | 27,046 | (5,046) |
| Salaries and wages | 165,000 | 165,000 | 151,299 | 13,701 |
| Payroll taxes | 15,000 | 15,000 | 12,464 | 2,536 |
| Telephone and utilities | 22,500 | 22,500 | 17,402 | 5,098 |
| Travel and training | 3,500 | 3,500 | 633 | 2,867 |
| Total General Government | 592,050 | 592,050 | 623,193 | (31,143) |

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------|----------------------------|-------------------------|----------------|---|
| Police: | | | | |
| Automobile | 16,000 | 16,000 | 18,877 | (2,877) |
| Health and life insurance | 42,500 | 42,500 | 40,587 | 1,913 |
| Insurance | 48,000 | 48,000 | 29,232 | 18,768 |
| Dues and subscriptions | 1,500 | 1,500 | 1,380 | 120 |
| Janitorial supplies | 1,000 | 1,000 | 315 | 685 |
| Materials and supplies | 10,000 | 10,000 | 8,769 | 1,231 |
| Other expenses | 1,000 | 1,000 | 1,933 | (933) |
| Office expenses | 3,500 | 3,500 | 3,178 | 322 |
| Professional fees | 6,000 | 6,000 | 4,687 | 1,313 |
| Repairs and maintenance | 10,000 | 10,000 | 14,526 | (4,526) |
| Retirement | 42,000 | 42,000 | 38,946 | 3,054 |
| Salaries and wages | 230,000 | 230,000 | 188,334 | 41,666 |
| Payroll tax | 20,000 | 20,000 | 15,686 | 4,314 |
| Telephone and utilities | 15,000 | 15,000 | 16,049 | (1,049) |
| Travel and training | 5,000 | 5,000 | 2,449 | 2,551 |
| Uniform allowance | 4,000 | 4,000 | 5,211 | (1,211) |
| Total Police | 455,500 | 455,500 | 390,159 | 65,341 |
| Fire: | | | | |
| Automobile | 7,200 | 7,200 | 3,568 | 3,632 |
| Insurance | 12,500 | 12,500 | 8,794 | 3,706 |
| Materials and supplies | 9,000 | 9,000 | 7,243 | 1,757 |
| Other expenses | 4,200 | 4,200 | 3,845 | 355 |
| Repairs and maintenance | 10,000 | 10,000 | 3,840 | 6,160 |
| Telephone and utilities | 5,000 | 5,000 | 8,034 | (3,034) |
| Travel and training | 500 | 500 | 1,051 | (551) |
| Total Fire | 48,400 | 48,400 | 36,375 | 12,025 |
| Dispatch: | | | | |
| Automobile | 1,800 | 1,800 | 365 | 1,435 |
| Health and life insurance | 50,500 | 50,500 | 45,985 | 4,515 |
| Insurance | 4,200 | 4,200 | 3,006 | 1,194 |
| Dues and subscriptions | 2,000 | 2,000 | 11,899 | (9,899) |
| Janitorial supplies | 1,000 | 1,000 | 315 | 685 |
| Materials and supplies | 7,500 | 7,500 | 70 | 7,430 |
| Other expenses | 2,500 | 2,500 | 344 | 2,156 |
| Office expenses | 5,000 | 5,000 | 2,882 | 2,118 |
| Professional fees | 5,000 | 5,000 | 4,645 | 355 |
| Repairs and maintenance | 5,000 | 5,000 | 37,890 | (32,890) |

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| Retirement | 45,000 | 45,000 | 38,104 | 6,896 |
| Salaries and wages | 230,000 | 230,000 | 203,316 | 26,684 |
| Payroll tax | 20,000 | 20,000 | 15,343 | 4,657 |
| Telephone and utilities | 14,000 | 14,000 | 10,064 | 3,936 |
| Travel and training | 4,500 | 4,500 | 776 | 3,724 |
| Uniform allowance | 3,200 | 3,200 | 507 | 2,693 |
| Total Dispatch | 401,200 | 401,200 | 375,511 | 25,689 |
| Street: | | | | |
| Automobile | 5,500 | 5,500 | 8,526 | (3,026) |
| Insurance | 4,000 | 4,000 | 2,629 | 1,371 |
| Other expenses | 10,000 | 10,000 | 1,309 | 8,691 |
| Materials and supplies | 7,500 | 7,500 | 3,163 | 4,337 |
| Repairs and maintenance | 5,000 | 5,000 | 8,033 | (3,033) |
| Utilities and telephone | 23,000 | 23,000 | 33,026 | (10,026) |
| Capital outlays | 5,000 | 5,000 | - | 5,000 |
| Total Street | 60,000 | 60,000 | 56,686 | 3,314 |
| Total Expenditures | 1,557,150 | 1,557,150 | 1,481,924 | 75,226 |
| Other Financing Sources/(Uses): | | | | |
| Operating transfers in | 79,000 | 79,000 | 108,309 | 29,309 |
| Operating transfers out | - | - | (48,000) | (48,000) |
| Proceeds from insurance | - | - | 42,174 | 42,174 |
| Total Other Financing Uses | 79,000 | 79,000 | 102,483 | 23,483 |
| Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses) | \$ (25,150) | \$ (25,150) | 4,097 | \$ 29,247 |
| Fund Balance at Beginning of Year | | | (774,647) | |
| Fund Balance at End of Year | | | \$ (770,550) | |

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 TOURISM AND PLANNING COMMISSION FUND
 FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Revenues: | | | | |
| Restaurant tax | \$ 160,000 | \$ 160,000 | \$ 146,851 | \$ (13,149) |
| Motel tax | 15,000 | 15,000 | 7,325 | (7,675) |
| Shelter income | 2,000 | 2,000 | 2,335 | 335 |
| Interest income | 200 | 200 | 55 | (145) |
| Other receipts | - | - | 9,801 | 9,801 |
| Total Revenues | <u>177,200</u> | <u>177,200</u> | <u>166,367</u> | <u>(10,833)</u> |
| Expenditures: | | | | |
| Administrative | 9,000 | 9,000 | 11,734 | (2,734) |
| Donations | 95,000 | 95,000 | 76,394 | 18,606 |
| Dues and subscriptions | - | - | - | - |
| Materials and supplies | 40,000 | 40,000 | 18,029 | 21,971 |
| Other expenses | 23,200 | 23,200 | 3,181 | 20,019 |
| Office expenses | - | - | 163 | (163) |
| Salaries and wages | 10,000 | 10,000 | 14,033 | (4,033) |
| Repairs and maintenance | - | - | 7,710 | (7,710) |
| Capital outlays | - | - | 100,087 | (100,087) |
| Total Expenditures | <u>177,200</u> | <u>177,200</u> | <u>231,331</u> | <u>(54,131)</u> |
| Other Financing Sources/(Uses): | | | | |
| Operating transfers out | - | - | - | - |
| Total Other Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses) | <u>\$ -</u> | <u>\$ -</u> | <u>(64,964)</u> | <u>\$ (64,964)</u> |
| Fund Balance at Beginning of Year | | | <u>128,158</u> | |
| Fund Balance at End of Year | | | <u>\$ 63,194</u> | |

SUPPLEMENTAL AND OTHER INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2014

| | 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 and cash equivalents | \$ 54,372 | \$ 31,286 | \$ - | \$ 32,439 | \$11,572 | \$ 129,669 |
| Certificate of deposit | - | 125,626 | - | - | - | 125,626 |
| Due from Water, Sewer, Gas | 131,660 | - | - | - | - | 131,660 |
| Due from General Fund | 125,000 | - | - | - | - | 125,000 |
| Receivables | - | 55 | 1,843 | - | - | 1,898 |
| Total Assets | \$311,032 | \$156,967 | \$ 1,843 | \$ 32,439 | \$11,572 | \$ 513,853 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ 1,711 | \$ 1,711 |
| Due to General Fund | - | 1,218 | - | - | - | 1,218 |
| Other accrued liabilities | - | - | 1,843 | - | - | 1,843 |
| Total Liabilities | - | 1,218 | 1,843 | - | 1,711 | 4,772 |
| Fund Balances: | | | | | | |
| Restricted for: | | | | | | |
| Debt service | 311,032 | - | - | - | - | 311,032 |
| Public safety | - | - | - | - | 9,861 | 9,861 |
| Streets | - | - | - | 32,439 | - | 32,439 |
| Assigned to: | | | | | | |
| Public safety | - | 155,749 | - | - | - | 155,749 |
| Total Fund Balances | 311,032 | 155,749 | - | 32,439 | 9,861 | 509,081 |
| Total Liabilities and Fund Balances | \$311,032 | \$156,967 | \$ 1,843 | \$ 32,439 | \$11,572 | \$ 513,853 |

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

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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, 2014. 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.