

CITY OF WEST LIBERTY
AUDITED FINANCIAL STATEMENTS

June 30, 2009



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240

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INDEPENDENT AUDITOR'S REPORT

The Honorable Jim Rupe, 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 City of West Liberty, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of West Liberty, Kentucky's, management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2009, on our consideration of the City of West Liberty, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of West Liberty, Kentucky

August 24, 2009

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The City of West Liberty, Kentucky has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

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 accompanying supplemental information 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 accompanying supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wells & Company, PSC

Certified Public Accountants

Paintsville, Kentucky

August 24, 2009

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2009

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 395,285	\$ 525,545	\$ 920,830
Certificates of deposit	160,519	221,745	382,264
Taxes receivable	15,948	-	15,948
Accounts receivable	22,930	141,823	164,753
Interest receivable	924	117	1,041
Other receivables	11,336	-	11,336
Unbilled revenues	-	65,365	65,365
Inventory	-	35,700	35,700
Prepaid and other assets	86,930	83,864	170,794
Due from water & sewer	117,033	-	117,033
Capital assets:			
Land and construction-in-progress	160,636	267,523	428,159
Other capital assets, net of accumulated depreciation	1,905,510	12,719,294	14,624,804
Total Assets	2,877,051	14,060,976	16,938,027
LIABILITIES			
Accounts payable	14,283	65,977	80,260
Retainage payable	-	5,988	5,988
Accrued payroll	18,579	13,377	31,956
Accrued payroll taxes	5,305	4,486	9,791
Accrued vacation	17,788	29,336	47,124
Accrued interest	7,935	21,972	29,907
Other accrued liabilities	9,779	9,341	19,120
Deferred grant revenue	-	25,808	25,808
Due to debt service fund	-	117,033	117,033
Long-term liabilities:			
Due within one year	31,099	68,948	100,047
Due in more than one year	279,925	3,291,991	3,571,916
Total Liabilities	384,693	3,654,257	4,038,950
NET ASSETS			
Invested in capital assets, net of related debt	1,755,122	9,625,878	11,381,000
Restricted for:			
Depreciation	-	377,689	377,689
Fire service	175,652	-	175,652
Highways and streets	39,530	-	39,530
Tourism	87,067	-	87,067
911 dispatch	25,741	-	25,741
Debt service	264,430	186,114	450,544
Unrestricted	144,816	217,038	361,854
Total Net Assets	\$ 2,492,358	\$ 10,406,719	\$ 12,899,077

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 523,217	\$ 211,646	\$ -	\$ -	\$ (311,571)	\$ -	\$ (311,571)
Public safety	985,393	177,214	33,131	-	(775,048)	-	(775,048)
Streets	115,908	-	102,258	-	(13,650)	-	(13,650)
Tourism and planning	184,347	-	-	-	(184,347)	-	(184,347)
Interest on long-term debt	18,696	-	-	-	(18,696)	-	(18,696)
Total governmental activities	<u>1,827,561</u>	<u>388,860</u>	<u>135,389</u>	<u>-</u>	<u>(1,303,312)</u>	<u>-</u>	<u>(1,303,312)</u>
Business-type activities:							
Water and sewer	2,337,417	1,596,078	-	53,851	-	(687,488)	(687,488)
Total business-type activities	<u>2,337,417</u>	<u>1,596,078</u>	<u>-</u>	<u>53,851</u>	<u>-</u>	<u>(687,488)</u>	<u>(687,488)</u>
Total primary government	<u>\$ 4,164,978</u>	<u>\$ 1,984,938</u>	<u>\$ 135,389</u>	<u>\$ 53,851</u>	<u>(1,303,312)</u>	<u>(687,488)</u>	<u>(1,990,800)</u>
General revenues:							
Property taxes					186,832	-	186,832
Fire taxes					21,146	-	21,146
Insurance premium taxes					410,456	-	410,456
Occupational taxes and licenses					303,067	-	303,067
Motor vehicle taxes					13,183	-	13,183
Restaurant taxes					153,283	-	153,283
Other taxes					16,465	-	16,465
Licenses and permits					5,200	-	5,200
Intergovernmental revenue					184,791	-	184,791
Interest income					10,719	8,924	19,643
Rental income					22,122	-	22,122
Gain/(Loss) on sale of capital assets					1,000	-	1,000
Miscellaneous					20,756	-	20,756
Total general revenues and transfers					<u>1,349,020</u>	<u>8,924</u>	<u>1,357,944</u>
Change in net assets					45,708	(678,564)	(632,856)
Net assets - beginning					2,446,650	11,085,284	13,531,934
Net assets - ending					<u>\$ 2,492,358</u>	<u>\$ 10,406,720</u>	<u>\$ 12,899,078</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

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	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 81,541	\$ 86,021	\$ 227,723	\$ 395,285
Certificates of deposits	-	-	160,519	160,519
Receivables:				
Property taxes	412	-	-	412
Interest	-	-	924	924
Other	32,213	-	2,053	34,266
Due from water & sewer	-	-	117,033	117,033
Prepaid expenses	85,755	1,175	-	86,930
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 199,921</u>	<u>\$ 87,196</u>	<u>\$ 508,252</u>	<u>\$ 795,369</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,308	\$ 129	\$ 846	\$ 14,283
Accrued payroll	18,579	-	-	18,579
Accrued payroll taxes	5,305	-	-	5,305
Accrued vacation	17,788	-	-	17,788
Other accrued liabilities	7,726	-	2,053	9,779
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>62,706</u>	<u>129</u>	<u>2,899</u>	<u>65,734</u>
Fund Balances:				
Reserved for debt service	-	-	264,430	264,430
Unreserved	137,215	87,067	240,923	465,205
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>137,215</u>	<u>87,067</u>	<u>505,353</u>	<u>729,635</u>
Total Liabilities and Fund Balances	<u>\$ 199,921</u>	<u>\$ 87,196</u>	<u>\$ 508,252</u>	<u>\$ 795,369</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

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Fund Balances - Total Governmental Funds

\$ 729,635

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

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

Governmental capital assets

3,675,123

Less: accumulated depreciation

(1,608,977)

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

(311,024)

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.

(7,935)

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

Delinquent property taxes

15,536

Net Assets of Governmental Activities

\$ 2,492,358

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, 2009

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	General Fund	Tourism and Planning	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 183,174	\$ -	\$ -	\$ 183,174
Insurance premium	410,456	-	-	410,456
Occupational taxes and licenses	303,067	-	-	303,067
Motor vehicle	13,183	-	-	13,183
Telecom	6,920	-	-	6,920
Fire	-	-	21,146	21,146
Restaurant	-	153,283	-	153,283
Motel	-	9,545	-	9,545
E-911	80,322	-	-	80,322
Shelter income	-	2,240	-	2,240
Wireless collections	-	-	96,892	96,892
Administrative	169,430	-	-	169,430
Licenses and permits	5,200	-	-	5,200
Intergovernmental revenues	15,613	-	135,137	150,750
Charges for garbage services	211,646	-	-	211,646
Rental income	19,882	-	-	19,882
Fines and forfeits	2,400	-	-	2,400
Interest income	3,202	348	7,169	10,719
Contributions	1,542	-	-	1,542
Miscellaneous revenues	10,814	-	6,000	16,814
Total revenues	<u>1,436,851</u>	<u>165,416</u>	<u>266,344</u>	<u>1,868,611</u>
Expenditures:				
General government	512,247	-	-	512,247
Public safety	812,112	-	61,619	873,731
Streets	52,811	-	-	52,811
Tourism and planning	-	138,908	-	138,908
Debt service				
Principal retirement	-	-	64,566	64,566
Interest	-	-	19,248	19,248
Capital outlay	96,263	75,167	86,180	257,610
Total expenditures	<u>1,473,433</u>	<u>214,075</u>	<u>231,613</u>	<u>1,919,121</u>
Excess (deficiency) of revenues over expenditures	(36,582)	(48,659)	34,731	(50,510)
Other financing sources (uses):				
Operating transfers in	62,888	-	98,455	161,343
Operating transfers out	(50,454)	-	(110,889)	(161,343)
Proceeds from sale of assets	-	-	1,000	1,000
Total other financing sources (uses)	<u>12,434</u>	<u>-</u>	<u>(11,434)</u>	<u>1,000</u>
Net change in fund balances	(24,148)	(48,659)	23,297	(49,510)
Fund balances - beginning	<u>161,363</u>	<u>135,726</u>	<u>482,056</u>	<u>779,145</u>
Fund balances - ending	<u>\$ 137,215</u>	<u>\$ 87,067</u>	<u>\$ 505,353</u>	<u>\$ 729,635</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, 2009**

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Net Change in Fund Balances - Total Governmental Funds	\$ (49,510)
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	257,610
Depreciation expense	(231,168)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	
Increase in property taxes	3,658
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.	552
Proceeds of long-term debt are recorded as an other financing source for governmental funds but it is not recorded in the statement of activities. Proceeds of long-term debt are liabilities.	-
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:	
Loans payable	64,566
Change in Net Assets of Governmental Activities	<u>\$ 45,708</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITY
JUNE 30, 2009

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ASSETS	<u>Water & Sewer</u>
Current assets:	
Cash	\$ 183,487
Accounts receivable, no allowance considered necessary	141,823
Interest receivable	117
Unbilled revenues	65,365
Inventory	35,700
Prepaid expenses	<u>70,086</u>
Total current assets	<u>496,578</u>
Non-current assets:	
Restricted assets:	
Cash	342,058
Certificate of deposits	<u>221,745</u>
Total restricted assets	<u>563,803</u>
Utility Plant:	
Plant in service	20,131,897
Less accumulated depreciation	<u>(7,348,689)</u>
	12,783,208
Construction work in progress	<u>203,609</u>
Net utility plant	<u>12,986,817</u>
Other non-current assets:	
Bond issuance costs, net	<u>13,778</u>
Total other non-current assets	<u>13,778</u>
Total assets	<u>\$ 14,060,976</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF NET ASSETS (Continued)
 BUSINESS-TYPE ACTIVITY
 JUNE 30, 2009

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LIABILITIES AND NET ASSETS	<u>Water & Sewer</u>
Current liabilities:	
Accounts payable - trade	\$ 65,977
Retainage payable	5,988
Accrued payroll	13,377
Accrued payroll taxes	4,486
Accrued vacation	29,336
Accrued interest payable	21,972
Other accrued liabilities	9,341
Deferred grant revenue	25,808
Due to debt service fund	117,033
Current portion of long-term liabilities	<u>68,948</u>
Total current liabilities	<u>362,266</u>
Long-term liabilities:	
Long-term debt	<u>3,360,939</u>
Less current portion	<u>3,360,939</u>
	<u>(68,948)</u>
Total long-term liabilities	<u>3,291,991</u>
Total liabilities	<u>3,654,257</u>
Net assets:	
Investments in capital assets, net of related debt	9,625,878
Restricted for:	
Debt service	186,114
Depreciation	377,689
Unrestricted	<u>217,038</u>
Total net assets	<u>10,406,719</u>
Total liabilities and net assets	<u>\$ 14,060,976</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 BUSINESS-TYPE ACTIVITY
 YEAR ENDED JUNE 30, 2009

11

	<u>Water & Sewer</u>
Operating revenues:	
Sewer revenues	\$ 682,554
Water revenues	889,296
Other operating revenues	<u>24,228</u>
Total operating revenues	1,596,078
Operating expenses:	
Sewer	1,023,689
Water	<u>1,179,785</u>
Total operating expenses	<u>2,203,474</u>
Utility operating income (loss)	<u>(607,396)</u>
Non-operating revenues (expenses):	
Interest income	8,924
Interest expense	(133,510)
Amortization of bond issue costs	<u>(433)</u>
Total non-operating revenues (expenses)	<u>(125,019)</u>
Net income (loss) before contributions from (to)	(732,415)
Contributions in aid of construction	<u>53,851</u>
Change in net assets	(678,564)
Net assets, beginning of year	<u>11,085,284</u>
Net assets, end of year	<u><u>\$ 10,406,720</u></u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITY
YEAR ENDED JUNE 30, 2009

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	<u>Water & Sewer</u>
Cash flows from operating activities:	
Cash inflows:	
Payments received from customers	\$ 1,593,557
Total cash provided	<u>1,593,557</u>
Cash outflows:	
Payments for salaries and benefits	669,903
Payments to suppliers for goods and services	<u>731,034</u>
Total cash used	<u>1,400,937</u>
Net cash provided (used) by operating activities	<u>192,620</u>
Cash flows from capital and related financing activities:	
Purchases of equipment	(68,495)
Proceeds from loan	-
Contributions-in-aid of construction	150,175
Principal payments on long-term debt	(67,247)
Interest paid on long-term debt	<u>(133,874)</u>
Net cash provided (used) by capital and related financing activities	<u>(119,441)</u>
Cash flows from investing activities:	
Interest received	<u>9,116</u>
Net cash provided (used) by investing activities	<u>9,116</u>
Net cash inflow (outflow) from all activities	82,295
Cash and cash equivalents at beginning of period	<u>664,995</u>
Cash and cash equivalents at end of period	<u><u>\$ 747,290</u></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, 2009

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	<u>Water & Sewer</u>
Reconciliation of utility operating income to net cash provided by operating activities:	
Utility operating income	\$ (607,396)
Depreciation	601,257
Bad debt expense	6,219
(Increase) decrease in:	
Accounts receivable	(6,404)
Unbilled revenue	(2,336)
Inventory	(12,790)
Prepaid expenses and other assets	62,913
Increase (decrease) in:	
Accounts payable	33,441
Accrued liabilities and other liabilities	117,716
Net cash provided (used) by operating activities	<u><u>\$ 192,620</u></u>
Schedule of cash and cash equivalents:	
Beginning of period:	
Unrestricted cash	\$ 187,583
Restricted cash	477,412
	<u><u>\$ 664,995</u></u>
End of period:	
Unrestricted cash	\$ 183,487
Restricted cash	563,803
	<u><u>\$ 747,290</u></u>

See accompanying notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. 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 assets and the statement of changes in net assets) 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

activities, which 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 and Sewer Fund –

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer 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 and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

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

C. Measurement Focus/Basis of Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Budgetary Control

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

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

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

E. Cash and Investments

The City considers all cash, certificates of deposit, and savings to be cash equivalents. At June 30, 2009, the reported amount of the City's deposits was \$1,303,094 and the bank balance was \$1,308,041. Kentucky Revised Statutes requires depositories to provide an adequate pledge of securities to sufficiently cover deposits in excess of the \$250,000 Federal Deposit Insurance Corporation (FDIC) coverage. As of June 30, 2009, the City's deposits were adequately secured.

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associates insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Investments are stated at cost, which approximates market.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

I. Bond Discounts and Issue Costs

Bond discounts and issue costs are being amortized over the life of the bonds using the straight-line 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 and Sewer 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Q. Defined Pension Benefit Plan

Substantially all City of West Liberty's full-time regular employees participate in the statewide Kentucky 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, 2009 was \$993,123; the City's total payroll was \$1,058,046.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 13.50% for all covered employees. The contribution requirement for the year ended June 30, 2009 was \$183,728, which consisted of \$134,072 from the City and \$49,656 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. PROPERTY TAXES

Property taxes for fiscal year 2008 were levied on \$242,800,423 the assessed valuation of property 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 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, consisted of the following:

Governmental Activities

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 160,636	\$ -	\$ -	\$ 160,636
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>160,636</u>	<u>-</u>	<u>-</u>	<u>160,636</u>

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 3. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:

Buildings and improvements	585,359	-	-	585,359
Improvements other than buildings	613,759	75,167	-	688,926
Infrastructure	342,456	78,207	-	420,663
Automobiles and trucks	689,375	44,794	-	734,169
Machinery and equipment	<u>1,028,808</u>	<u>59,442</u>	<u>2,880</u>	<u>1,085,370</u>
Total capital assets being depreciated	3,259,757	257,610	2,880	3,514,487

Less accumulated depreciation for:

Buildings and improvements	(177,826)	(12,583)	-	(190,409)
Improvements other than buildings	(283,881)	(43,423)	-	(327,304)
Infrastructure	(87,847)	(38,156)	-	(126,003)
Automobiles and trucks	(343,950)	(50,194)	-	(394,144)
Machinery and equipment	<u>(487,185)</u>	<u>(86,812)</u>	<u>(2,880)</u>	<u>(571,117)</u>
Total accumulated depreciation	<u>(1,380,689)</u>	<u>(231,168)</u>	<u>(2,880)</u>	<u>(1,608,977)</u>
Total capital assets being depreciated, net	<u>1,879,068</u>	<u>26,442</u>	<u>-</u>	<u>1,905,510</u>

Governmental activities capital assets, net	<u>\$2,039,704</u>	<u>\$ 26,442</u>	<u>\$ -</u>	<u>\$2,066,146</u>
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Depreciation was charged to governmental functions as follows:

General government	\$ 10,970
Public safety	111,662
Tourism and planning	45,439
Streets	<u>63,097</u>
Total	<u>\$231,168</u>

Business-Type Activities

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 63,914	\$ -	\$ -	\$ 63,914
Construction in progress	<u>148,614</u>	<u>54,995</u>	<u>-</u>	<u>203,609</u>
Total capital assets, not being depreciated	<u>212,528</u>	<u>54,995</u>	<u>-</u>	<u>267,523</u>
Capital assets, being depreciated:				
Leasehold improvements	1,000	-	-	1,000
Machinery and equipment	699,403	13,500	-	712,903
Water plant and water system	9,084,913	-	-	9,084,913
Sewer plant and sewer system	<u>10,269,167</u>	<u>-</u>	<u>-</u>	<u>10,269,167</u>
Total capital assets being depreciated	20,054,483	13,500	-	20,067,983

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 3. CAPITAL ASSETS (Continued)

Less accumulated depreciation for:

Leasehold improvements	(532)	(31)	-	(563)
Machinery and equipment	(532,784)	(43,438)	-	(576,222)
Water plant and water system	(2,987,829)	(254,066)	-	(3,241,895)
Sewer plant and sewer system	(3,226,287)	(303,722)	-	(3,530,009)
Total accumulated depreciation	(6,747,432)	(601,257)	-	(7,348,689)
Total capital assets being depreciated, net	13,307,051	(587,757)	-	12,719,294
Total utilities capital assets, net	<u>\$13,519,579</u>	<u>\$ (532,762)</u>	<u>\$ -</u>	<u>\$12,986,817</u>

NOTE 4: 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%.

Principal payments are due annually for revenue bonds on November 1, and interest payments are due semi-annually on May 1, and November 1.

Total bond interest expense for the year ended June 30, 2009, amounted to \$131,678.

The Water and Sewer Proprietary Fund note payable at June 30, 2009 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 due on June 1, 2017.

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 4: LONG-TERM DEBT (Continued)

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amounts Due Within One Year</u>
Bond payable – 1988 issue	\$ 439,000	\$ -	(\$ 12,000)	\$ 427,000	\$13,000
Bond payable – 1998 issue	420,500	-	(5,500)	415,000	6,000
Bond payable – 2001 issue (A)	942,000	-	(16,000)	926,000	16,000
Bond payable – 2001 issue (B)	267,500	-	(3,500)	264,000	3,500
Bond payable – 2006 issue	801,000	-	(9,000)	792,000	9,000
Bond payable – 2007 issue	400,000	-	(4,500)	395,500	4,500
Note payable – KIA	<u>158,186</u>	<u>-</u>	<u>(16,747)</u>	<u>141,439</u>	<u>16,948</u>
Long-Term Debt	<u>\$3,428,186</u>	<u>\$ -</u>	<u>(\$ 67,247)</u>	<u>\$3,360,939</u>	<u>\$68,948</u>

Principal and interest payments to be made on all long-term debt at June 30, 2009, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2010	\$ 52,000	\$ 16,948	\$ 68,948	\$ 130,934	\$ 199,882
2011	55,500	17,152	72,652	129,122	201,774
2012	56,500	17,359	73,859	126,594	200,453
2013	60,000	17,568	77,568	123,968	201,536
2014	62,000	17,779	79,779	11,220	90,999
2015-2019	351,000	54,633	405,633	561,388	967,021
2020-2024	431,500	-	431,500	478,704	910,204
2025-2029	534,500	-	534,500	377,569	912,069
2030-2034	468,500	-	468,500	274,730	743,230
2035-2039	573,500	-	573,500	172,445	745,945
2040-2044	458,000	-	458,000	61,686	519,686
2044-2046	<u>116,500</u>	<u>-</u>	<u>116,500</u>	<u>4,775</u>	<u>121,275</u>
	<u>\$3,219,500</u>	<u>\$141,439</u>	<u>\$3,360,939</u>	<u>\$2,453,135</u>	<u>\$5,814,074</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, 2009, amounted to \$16,860.

CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 4: LONG-TERM DEBT (Continued)

The City's notes payable at June 30, 2009 consisted of the following:

- 1) On August 10, 2007, the City borrowed \$70,000 from the Kentucky League of Cities to finance the purchase of police cruisers. The loan agreement calls for 61 monthly payments ranging from \$1,285 to \$1,375.

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amounts Due Within One Year</u>
Bond payable – series A	\$209,000	\$ -	\$(12,000)	\$197,000	\$13,000
Bond payable – series B	72,000	-	(4,500)	67,500	4,500
Police Cars (KLC)	59,529	-	(13,005)	46,524	13,599
City Hall (Commercial Bank)	<u>35,061</u>	<u>-</u>	<u>(35,061)</u>	<u>-</u>	<u>-</u>
Long-Term Debt	<u>\$375,590</u>	<u>\$ -</u>	<u>(\$64,566)</u>	<u>\$311,024</u>	<u>\$31,099</u>

Principal and interest payments to be made on all long-term debt at June 30, 2009, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2010	\$ 17,500	\$13,599	\$ 31,099	\$ 17,081	\$ 48,180
2011	19,000	14,224	33,224	15,614	48,838
2012	20,000	14,876	34,876	14,039	48,915
2013	20,500	3,825	24,325	12,533	36,858
2014	22,500	-	22,500	11,250	33,750
2015-2019	134,000	-	134,000	34,249	168,249
2020-2021	<u>31,000</u>	<u>-</u>	<u>31,000</u>	<u>1,860</u>	<u>32,860</u>
	<u>\$264,500</u>	<u>\$46,524</u>	<u>\$311,024</u>	<u>\$106,626</u>	<u>\$417,650</u>

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, 2009 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and investments.

NOTE 5 - 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 \$158,683 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 \$27,431 is being held in an interest bearing account at the Commercial Bank of West Liberty.

General Fund Bond Sinking Fund in the amount of \$81,924 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 \$65,473 is being held in an interest bearing savings account at the Commercial Bank of West Liberty, these funds are being maintained in the Debt Service Fund.

Reserve for Depreciation

"Depreciation Funds" are being maintained as required in various bond documents. These Proprietary Funds are required to be deposited into separate accounts for the purpose of maintaining the water and sewer systems. Certificates of Deposit have also been purchased for water and sewer depreciation reserves. The total amounts deposited in these accounts for Water Depreciation and for Waste Water Depreciation is \$377,689.

NOTE 6 – 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 7 – 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.

**CITY OF WEST LIBERTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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NOTE 8 - RELATED PARTIES

Generally accepted auditing standards require disclosure of related party transactions. A related party transaction is defined as a transaction that involves the entity being audited and any member of management or their immediate family. The City of West Liberty and councilman John May and councilwoman Belinda Jordan were involved in related party transactions. The City purchased \$1,108 of computer equipment and supplies from West Liberty Electronics, which is owned by John May, and the City purchased \$251 of supplies from Seasons Florist and Gift Shop, which is owned by Belinda Jordan.

For the period dated June 30, 2009, the City's Utility Fund paid the City's General Fund \$161,134 for office rent and administrative expenses.

AUDITOR'S REPORT



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**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 Jim Rupe, Mayor
Members of the City Council
City of West Liberty, Kentucky

We have audited 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, 2009 which collectively comprise the City of West Liberty, Kentucky's basic financial statements and have issued our report thereon dated August 24, 2009, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Liberty, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty, Kentucky's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of West Liberty, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in

reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of West Liberty, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of West Liberty, Kentucky's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

2009-1 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: Compensating controls should be designed and implemented as effectively as possible to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Management Comment: Management of the City concurs with the finding and plans to develop compensating controls that will reduce to the lowest level any chance of misappropriation of assets and/or misrepresentation of financial records.

2009-2 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 (SAS) 112 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: There should be continuing education for personnel engaged in financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of West Liberty, Kentucky's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Liberty, Kentucky's financial statements are free of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described below:

2009-3 Bond Covenant Reserves

Condition: The City's operations and maintenance reserve for water and sewer was underfunded as of June 30, 2009. The depreciation reserve and debt service reserve were fully funded.

Criteria: The City should have an operations and maintenance reserve on hand to cover anticipated water and sewer expenditures for a two month period pursuant to the City's annual budget.

Cause of Condition: The City's expenses to operate the water and sewer system have outpaced revenue.

Recommendation: It is recommended that the City review water and sewer rates at the beginning of each year and tie rate increases to the increase in the consumer price index to protect the City against inflation. Rates cannot remain the same year over year while expenses continue to increase.

Management Comment: Management of the City plans on reviewing the current rate structure.

We noted certain matters that we reported to management of the City of West Liberty, Kentucky, in a separate letter dated August 24, 2009.

The City of West Liberty, Kentucky's response to the findings identified in our audit is described above. We did not audit the City of West Liberty, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
August 24, 2009

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

30

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property taxes	\$ 235,000	\$ 183,174	\$ (51,826)
Taxes on insurance premiums	350,000	410,456	60,456
Occupational taxes and licenses	275,000	303,067	28,067
E911	76,000	80,322	4,322
Unloading license	-	4,000	4,000
Building permits	-	1,200	1,200
Law enforcement fees	30,000	15,361	(14,639)
Motor vehicle tax	13,000	13,183	183
Telecom tax	12,000	6,920	(5,080)
Interest	-	3,202	3,202
Rent	18,000	19,882	1,882
Garbage fees	215,000	211,646	(3,354)
Fines and forfeits	-	2,400	2,400
Administrative	160,000	169,430	9,430
Grant revenue	-	252	252
Contributions	-	1,542	1,542
Other receipts	4,000	10,814	6,814
	<u>1,388,000</u>	<u>1,436,851</u>	<u>48,851</u>
Total Revenues			
	<u>1,388,000</u>	<u>1,436,851</u>	<u>48,851</u>
Expenditures:			
General government:			
Health and life insurance	50,000	50,259	(259)
Insurance	50,000	34,416	15,584
Garbage fees	215,000	198,315	16,685
Dues and subscriptions	2,500	606	1,894
Materials and supplies	2,000	546	1,454
Janitorial supplies	1,500	459	1,041
Mayor and city council fees	10,000	7,750	2,250
Other expenses	7,000	16,365	(9,365)
Office expenses	7,500	16,271	(8,771)
Professional fees	7,500	9,905	(2,405)
Postage	1,000	1,748	(748)
Repairs and maintenance	5,000	3,142	1,858
Retirement	13,000	13,516	(516)
Salaries and wages	115,000	128,193	(13,193)
Payroll taxes	8,000	9,279	(1,279)
Telephone and utilities	18,000	19,697	(1,697)
Travel and training	1,500	1,780	(280)
Capital outlays	5,000	-	5,000
	<u>519,500</u>	<u>512,247</u>	<u>7,253</u>
Total General Government			
	<u>519,500</u>	<u>512,247</u>	<u>7,253</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

31

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Police:			
Automobile	25,000	14,961	10,039
Health and life insurance	34,000	41,688	(7,688)
Insurance	20,000	40,652	(20,652)
Dues and subscriptions	2,000	227	1,773
Janitorial supplies	1,000	373	627
Materials and supplies	17,000	12,359	4,641
Other expenses	1,500	3,486	(1,986)
Office expenses	12,000	8,523	3,477
Professional fees	7,500	5,672	1,828
Repairs and maintenance	17,000	8,818	8,182
Retirement	41,000	32,606	8,394
Salaries and wages	315,000	218,986	96,014
Payroll tax	20,000	17,553	2,447
Telephone and utilities	15,000	15,605	(605)
Travel and training	12,000	7,575	4,425
Uniform allowance	6,000	4,609	1,391
Capital outlays	30,200	35,545	(5,345)
Total Police	<u>576,200</u>	<u>469,238</u>	<u>106,962</u>
Fire:			
Automobile	2,000	1,849	151
Insurance	7,000	8,419	(1,419)
Materials and supplies	7,000	1,462	5,538
Other expenses	11,500	2,096	9,404
Repairs and maintenance	3,000	14,049	(11,049)
Telephone and utilities	7,000	8,457	(1,457)
Travel and training	2,500	1,045	1,455
Capital outlays	-	25,903	(25,903)
Total Fire	<u>40,000</u>	<u>63,280</u>	<u>(23,280)</u>
Dispatch:			
Automobile	3,000	412	2,588
Health and life insurance	33,000	37,918	(4,918)
Insurance	4,900	4,354	546
Dues and subscriptions	1,400	328	1,072
Janitorial supplies	1,000	359	641
Materials and supplies	1,500	1,337	163
Other expenses	500	425	75
Office expenses	3,000	2,126	874
Professional fees	20,000	5,310	14,690
Repairs and maintenance	5,000	31,158	(26,158)

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

32

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Retirement	31,000	26,918	4,082
Salaries and wages	250,000	201,432	48,568
Payroll tax	16,000	14,505	1,495
Telephone and utilities	12,000	10,387	1,613
Travel and training	2,000	2,148	(148)
Uniform allowance	3,000	1,925	1,075
Capital outlays	22,000	34,815	(12,815)
Total Dispatch	<u>409,300</u>	<u>375,857</u>	<u>33,443</u>
Street:			
Automobile	-	4,664	(4,664)
Insurance	3,000	4,195	(1,195)
Other expenses	9,000	14,098	(5,098)
Materials and supplies	5,000	4,745	255
Repairs and maintenance	5,000	5,232	(232)
Utilities and telephone	18,000	19,877	(1,877)
Capital outlays	-	-	-
Total Street	<u>40,000</u>	<u>52,811</u>	<u>(12,811)</u>
Total Expenditures	<u>1,585,000</u>	<u>1,473,433</u>	<u>111,567</u>
Other Financing Sources/(Uses):			
Operating transfers	160,200	12,434	(147,766)
Proceeds from borrowing	-	-	-
Total Other Financing Uses	<u>160,200</u>	<u>12,434</u>	<u>(147,766)</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ (36,800)</u>	(24,148)	<u>\$ 12,652</u>
Fund Balance at Beginning of Year		<u>161,363</u>	
Fund Balance at End of Year		<u>\$ 137,215</u>	

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 TOURISM AND PLANNING COMMISSION FUND
 FOR THE YEAR ENDED JUNE 30, 2009

33

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restaurant tax	\$ 127,000	\$ 153,283	\$ 26,283
Motel tax	7,000	9,545	2,545
Shelter income	2,500	2,240	(260)
Interest income	500	348	(152)
Other receipts	-	-	-
Total Revenues	137,000	165,416	28,416
Expenditures:			
Administrative	2,000	8,296	(6,296)
Donations	117,000	109,197	7,803
Dues and subscriptions	-	116	(116)
Materials and supplies	-	4,897	(4,897)
Other expenses	3,000	4,942	(1,942)
Office expenses	-	75	(75)
Repairs and maintenance	15,000	11,385	3,615
Capital outlays	-	75,167	(75,167)
Total Expenditures	137,000	214,075	(77,075)
Other Financing Sources/(Uses):			
Operating transfers	-	-	-
Proceeds from borrowing	-	-	-
Total Other Financing Uses	-	-	-
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	\$ -	(48,659)	\$ (48,659)
Fund Balance at Beginning of Year		135,726	
Fund Balance at End of Year		\$ 87,067	

See accompanying notes to basic financial statements.

SUPPLEMENTAL AND OTHER INFORMATION

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2009

34

	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	\$147,397	\$ 14,209	\$ -	\$ 39,530	\$26,587	\$ 227,723
Certificates of deposit	-	160,519	-	-	-	160,519
Receivables	-	924	-	-	-	924
Due from water & sewer	117,033	-	2,053	-	-	119,086
Total Assets	<u>\$264,430</u>	<u>\$175,652</u>	<u>\$ 2,053</u>	<u>\$ 39,530</u>	<u>\$26,587</u>	<u>\$ 508,252</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 846	\$ 846
Other accrued liabilities	-	-	2,053	-	-	2,053
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,053</u>	<u>-</u>	<u>846</u>	<u>2,899</u>
Fund Balances:						
Reserved for debt service	264,430	-	-	-	-	264,430
Unreserved	-	175,652	-	39,530	25,741	240,923
Total Fund Balances	<u>264,430</u>	<u>175,652</u>	<u>-</u>	<u>39,530</u>	<u>25,741</u>	<u>505,353</u>
Total Liabilities and Fund Balances	<u>\$264,430</u>	<u>\$175,652</u>	<u>\$ 2,053</u>	<u>\$ 39,530</u>	<u>\$26,587</u>	<u>\$ 508,252</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

35

	Special Revenue Funds					Total Non-Major Governmental Funds
	Debt Service Fund	Fire Tax Fund	Police Incentive Fund	Municipal Road Aid Fund	CMRS Fund	
Revenues:						
Taxes	\$ -	\$ 21,146	\$ -	\$ -	\$ -	\$ 21,146
City stickers	-	-	-	-	-	-
Wireless collections	-	-	-	-	96,892	96,892
Intergovernmental revenues	-	8,250	24,629	102,258	-	135,137
Other receipts	-	6,000	-	-	-	6,000
Investment income	2,632	3,825	-	583	129	7,169
Total revenues	<u>2,632</u>	<u>39,221</u>	<u>24,629</u>	<u>102,841</u>	<u>97,021</u>	<u>266,344</u>
Expenditures:						
Public safety	-	9,580	24,629	-	35,383	69,592
Streets	-	-	-	78,207	-	78,207
Debt service:						
Principal retirement	64,566	-	-	-	-	64,566
Interest	19,248	-	-	-	-	19,248
Total expenditures	<u>83,814</u>	<u>9,580</u>	<u>24,629</u>	<u>78,207</u>	<u>35,383</u>	<u>231,613</u>
Excess (deficiency) of revenues over expenditures	(81,182)	29,641	-	24,634	61,638	34,731
Other financing sources (uses):						
Operating transfers in	98,455	-	-	-	-	98,455
Operating transfers out	-	(30,977)	-	(31,223)	(48,689)	(110,889)
Proceeds from sale of assets	-	-	-	-	1,000	1,000
Total other financing sources (uses)	<u>98,455</u>	<u>(30,977)</u>	<u>-</u>	<u>(31,223)</u>	<u>(47,689)</u>	<u>(11,434)</u>
Net change in fund balances	17,273	(1,336)	-	(6,589)	13,949	23,297
Fund balances - beginning	<u>247,157</u>	<u>176,988</u>	<u>-</u>	<u>46,119</u>	<u>11,792</u>	<u>482,056</u>
Fund balances - ending	<u>\$264,430</u>	<u>\$175,652</u>	<u>\$ -</u>	<u>\$ 39,530</u>	<u>\$25,741</u>	<u>\$ 505,353</u>

See accompanying notes to basic financial statements.

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
BUSINESS-TYPE ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2009

36

	SEWER	WATER	TOTAL
Administrative	\$ 80,567	\$ 80,567	\$ 161,134
Automobile	11,707	12,738	24,445
Bad Debt	2,073	4,146	6,219
Chemicals	44,237	109,380	153,617
Depreciation	328,464	272,793	601,257
Dues and Subscriptions	256	490	746
Health and Life Insurance	46,709	44,118	90,827
Insurance	39,228	45,875	85,103
Janitorial Supplies	318	520	838
Materials and Supplies	42,411	50,541	92,952
Miscellaneous	1,802	807	2,609
Office Expenses	1,690	2,152	3,842
Postage	1,426	1,872	3,298
Professional Fees	6,983	8,762	15,745
Repairs and Maintenance	39,820	77,861	117,681
Retirement	30,743	30,288	61,031
Salaries and Wages	231,445	253,361	484,806
Payroll Taxes	16,290	18,544	34,834
Telephone and Utilities	84,878	144,668	229,546
Testing	7,584	16,827	24,411
Travel and Training	1,852	140	1,992
Uniform Allowance	3,206	3,335	6,541
TOTAL OPERATING EXPENSES	\$ 1,023,689	\$ 1,179,785	\$ 2,203,474

See accompanying notes to basic financial statements.

**CITY OF WEST LIBERTY, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
June 30, 2009**

37

CITY COUNCIL

<u>NAME</u>	<u>TERM EXPIRES</u>
Belinda Jordan	December 31, 2010
Phyllis Keeton	December 31, 2010
John May	December 31, 2010
Dwayne Nickell	December 31, 2010
Alton Pelfrey	December 31, 2010
Mark Walter	December 31, 2010

ADMINISTRATIVE PERSONNEL

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

CITY OF WEST LIBERTY, KENTUCKY
SCHEDULE OF INSURANCE
June 30, 2009

38

COVERAGE

FIRE AND EXTENDED COVERAGE

Buildings and contents	\$	17,109,420
Scheduled equipment		351,197

AUTOMOBILE EQUIPMENT

Liability coverage - per accident	\$	2,000,000
Uninsured motorist		100,000
Underinsured motorist		100,000
Personal injury		10,000
Physical damage		Actual cash value

WORKMEN'S COMPENSATION

Statutory

GENERAL LIABILITY

Personal and advertising injury	\$	2,000,000
Hazardous response		2,000,000
Employee benefits liability		2,000,000
Fire damage		100,000
Medical expense		5,000

PUBLIC OFFICIALS' LIABILITY

\$ 2,000,000

LAW ENFORCEMENT LIABILITY

\$ 2,000,000

PUBLIC OFFICIAL BONDS

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



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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(606) 789-3588

Fax (606) 789-3326

August 24, 2009

Jim Rupe, Mayor
Members of the City Council
West Liberty, Kentucky

In planning and performing our audit of the financial statements of the City of West Liberty, Kentucky ("City") for the year ended June 30, 2009, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the City's internal control in our report dated August 24, 2009. This letter does not affect our report dated August 24, 2009, on the financial statements of the City of West Liberty, Kentucky.

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

Inventory

It is recommended that an inventory count on water and sewer supplies be performed near year end. The counts could be recorded in an excel worksheet. The worksheet should include the item description, the quantity, cost per item, and the total cost. The inventory count does not include machinery and equipment as these are accounted for in fixed assets and are on the depreciation schedule.

Bank Reconciliations

It was noted during the audit that some bank reconciliations listed the total dollar value of all outstanding checks but did not list the checks individually. It is recommended that all outstanding checks be listed individually for better reference.

Paid Invoices

It was noted during the audit that all paid invoices did not make reference to what general ledger account it had been posted to. It was inconsistent as some invoices were marked while others weren't. It is recommended that all paid invoices have proper documentation as to which general ledger account it was posted to.

We wish to thank the City Clerk and her department for their support and assistance during our audit.

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

Wells & Company, PSC

Wells & Company, PSC
Paintsville, Kentucky
August 24, 2009