

CITY OF BEAVER DAM, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION

For the Year Ended June 30, 2014
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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DRANE & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA
CHRISTI A. BROOKS, CPA
Telephone (270) 756-5704
FAX (270) 756-5927

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Commissioners
City of Beaver Dam, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City) 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 of 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 City'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 City'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 Beaver Dam, Kentucky as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 33 and 34 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.

Management has not presented the Management Discussion and Analysis that governmental 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information shown on pages 35 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information shown on pages 35 through 37 is the responsibility of management and was 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 accompanying supplementary information shown on pages 35 through 37 is 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 January 26, 2015 on our consideration of City of Beaver Dam, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Beaver Dam, Kentucky's internal control over financial reporting and compliance.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

January 26, 2015

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 810,885	\$ 1,314,288	\$ 2,125,173	\$ -
Accounts receivable	139,506	274,225	413,731	-
Due from primary government	-	-	-	81,184
Unbilled revenue	-	17,169	17,169	-
Total Current Assets	<u>950,391</u>	<u>1,605,682</u>	<u>2,556,073</u>	<u>81,184</u>
Noncurrent Assets				
Restricted cash	2,298,090	-	2,298,090	83,215
Investments - noncurrent	1,000	-	1,000	-
Capital assets, net of depreciation	3,075,218	3,133,899	6,209,117	-
Total Noncurrent Assets	<u>5,374,308</u>	<u>3,133,899</u>	<u>8,508,207</u>	<u>83,215</u>
Total Assets	<u>6,324,699</u>	<u>4,739,581</u>	<u>11,064,280</u>	<u>164,399</u>
Liabilities				
Current Liabilities				
Accounts payable	61,844	37,842	99,686	7,121
Accrued liabilities	40,869	40,570	81,439	-
Interfund payables	8,872	4,381	13,253	-
Due to component unit	81,184	-	81,184	-
Customer deposits	-	54,330	54,330	-
Capital lease payable - current portion	27,973	-	27,973	-
Notes payable - current portion	74,441	28,823	103,264	-
Total Current Liabilities	<u>295,183</u>	<u>165,946</u>	<u>461,129</u>	<u>7,121</u>
Long-term Liabilities				
Capital lease payable - long-term portion	12,761	-	12,761	-
Notes payable - long-term portion	2,308,738	402,072	2,710,810	-
Total Long-term Liabilities	<u>2,321,499</u>	<u>402,072</u>	<u>2,723,571</u>	<u>-</u>
Total Liabilities	<u>2,616,682</u>	<u>568,018</u>	<u>3,184,700</u>	<u>7,121</u>
Net Position				
Net investment in capital assets	2,509,534	2,703,004	5,212,538	-
Restricted for:				
Municipal roads	8,211	-	8,211	-
Cemetery maintenance	160,090	-	160,090	-
LGEA	122,243	-	122,243	-
Community pride	507	-	507	-
Tourism/amphitheater	78,533	-	78,533	157,278
Unrestricted, expendable	828,899	1,468,559	2,297,458	-
Total Net Position	<u>\$ 3,708,017</u>	<u>\$ 4,171,563</u>	<u>\$ 7,879,580</u>	<u>\$ 157,278</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Tourism Commission
Governmental Activities								
Cemetery	\$ 35,285	\$ 17,250	\$ -	\$ -	\$ (18,035)	\$ -	\$ (18,035)	\$ -
Code enforcement	19,169	-	-	-	(19,169)	-	(19,169)	-
Community pride project	385	135	-	-	(250)	-	(250)	-
General government	169,548	5,300	-	-	(164,248)	-	(164,248)	-
Parks and recreation	168,452	620	17,836	-	(149,996)	-	(149,996)	-
Public safety								
Fire	37,084	16,665	28,950	277,177	285,708	-	285,708	-
Police	449,676	-	43,683	-	(405,993)	-	(405,993)	-
Streets	191,440	-	-	155,303	(36,137)	-	(36,137)	-
Tourism	490,998	-	-	-	(490,998)	-	(490,998)	-
Total Governmental Activities	1,562,037	39,970	90,469	432,480	(999,118)	-	(999,118)	-
Business-Type Activities								
Water utilities	638,397	583,212	-	-	-	(55,185)	(55,185)	-
Sewer services	1,184,498	1,045,235	-	3,694	-	(135,569)	(135,569)	-
Sanitation services	135,622	160,922	-	-	-	25,300	25,300	-
Total Business-Type Activities	1,958,517	1,789,369	-	3,694	-	(165,454)	(165,454)	-
Total Primary Government	\$3,520,554	\$1,829,339	\$ 90,469	\$ 436,174	\$ (999,118)	\$ (165,454)	\$ (1,164,572)	-
Component Unit								
Tourism Commission	\$ (407,397)	\$ -	\$ -	\$ -				\$ (407,397)
General Revenues:								
Taxes:								
Ad valorem taxes					\$ 31,901	\$ -	\$ 31,901	\$ -
Franchise taxes					153,930	-	153,930	-
Insurance premium taxes					261,353	-	261,353	-
Property taxes					362,393	-	362,393	-
Restaurant and transient room taxes					545,553	-	545,553	-
Occupational licenses					12,808	-	12,808	-
Interest income					3,705	14,966	18,671	-
Other revenue					28,515	-	28,515	596
Payment from component unit					296,446	-	296,446	490,998
Total					1,696,604	14,966	1,711,570	491,594
Changes in Net Position					697,486	(150,488)	546,998	84,197
Net Position - July 1, 2013 - as Originally Reported					2,948,611	4,322,051	7,270,662	73,081
Adjustment for insurance premium taxes receivable					61,920	-	61,920	-
Net Position - July 1, 2013 - as Adjusted					3,010,531	4,322,051	7,332,582	73,081
Net Position - June 30, 2014					\$ 3,708,017	\$ 4,171,563	\$ 7,817,660	\$ 157,278

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 810,885	\$ -	\$ 810,885
Receivables, net	139,506	-	139,506
Restricted cash	1,936,762	361,328	2,298,090
Investments - noncurrent	-	1,000	1,000
Total Assets	<u>\$ 2,887,153</u>	<u>\$ 362,328</u>	<u>\$ 3,249,481</u>
Liabilities			
Accounts payable	\$ 60,610	\$ 1,234	\$ 61,844
Accrued liabilities	39,118	1,751	40,869
Due to component unit	81,184	-	81,184
Interfund payables	8,872	-	8,872
Total Liabilities	<u>189,784</u>	<u>2,985</u>	<u>192,769</u>
Fund Balance			
Restricted for:			
Cemetery maintenance	-	160,635	160,635
LGEA	-	189,990	189,990
Pension trust	36	-	36
Municipal roads	-	8,211	8,211
Tourism/amphitheater	1,936,762	-	1,936,762
Assigned to community projects	-	507	507
Unassigned	760,571	-	760,571
Total Fund Balance	<u>2,697,369</u>	<u>359,343</u>	<u>3,056,712</u>
Total Liabilities and Fund Balance	<u>\$ 2,887,153</u>	<u>\$ 362,328</u>	<u>\$ 3,249,481</u>

Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities

Total Governmental Fund Balance \$ 3,056,712

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 governmental funds. 3,075,218

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. (2,423,913)

Net Position of Governmental Activities \$ 3,708,017

The accompanying notes are an integral part of this financial statement.

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Charges for services	\$ 40,135	\$ 17,385	\$ 57,520
Interest income	2,701	1,004	3,705
Intergovernmental revenues	350,096	155,303	505,399
Licenses and permits	12,808	-	12,808
Miscellaneous revenues	2,826	25,689	28,515
Payments from component unit	296,446	-	296,446
Taxes	1,355,128	-	1,355,128
Total Revenues	<u>2,060,140</u>	<u>199,381</u>	<u>2,259,521</u>
Expenditures			
Current:			
Cemetery	-	32,564	32,564
Code enforcement	19,169	-	19,169
Community Pride project	-	385	385
General government	163,308	-	163,308
Public safety:			
Fire	26,045	-	26,045
Police	431,541	-	431,541
Parks and recreation	32,886	-	32,886
Streets	-	89,446	89,446
Tourism - payment to component unit	490,998	-	490,998
Debt Service:			
Principal	55,694	-	55,694
Interest	4,424	-	4,424
Debt issuance costs	80,650	-	80,650
Capital Outlay	683,272	54,748	738,020
Total Expenditures	<u>1,987,987</u>	<u>177,143</u>	<u>2,165,130</u>
Excess of Revenues Over Expenditures	<u>72,153</u>	<u>22,238</u>	<u>94,391</u>
Other Financing Sources (Uses)			
Proceeds from issuance of debt	2,189,000	-	2,189,000
Operating transfers in	-	14,000	14,000
Operating transfers out	(14,000)	-	(14,000)
Total Other Financing Sources (Uses)	<u>2,175,000</u>	<u>14,000</u>	<u>2,189,000</u>
Net Change in Fund Balance	<u>2,247,153</u>	<u>36,238</u>	<u>2,283,391</u>
Fund Balance - July 1, 2013 - as Originally Reported	388,296	323,105	711,401
Adjustment for insurance premium taxes receivable	61,920	-	61,920
Fund Balance - July 1, 2013 - as Adjusted	<u>450,216</u>	<u>323,105</u>	<u>773,321</u>
Fund Balance - June 30, 2014	<u>\$ 2,697,369</u>	<u>\$ 359,343</u>	<u>\$ 3,056,712</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net Changes in Fund Balances - Governmental Funds **\$ 2,283,391**

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

The governmental fund reports capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$738,020) exceeded depreciation (\$190,621). 547,399

Proceeds from the issuance of debt provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. (2,189,000)

Debt repayments are expensed in the governmental funds as a use of current financial resources. 55,694

Rounding 2

Changes in Net Position of Governmental Activities **\$ 697,486**

The accompanying notes are an integral part of this financial statement.

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Assets				
Current Assets				
Cash and cash equivalents	\$ 503,472	\$ 556,208	\$ 254,608	\$ 1,314,288
Trade accounts receivable - net	88,361	169,559	16,305	274,225
Interfund receivables	-	319	-	319
Unbilled revenue	5,773	11,396	-	17,169
Total Current Assets	<u>597,606</u>	<u>737,482</u>	<u>270,913</u>	<u>1,606,001</u>
Noncurrent Assets				
Construction in progress	8,260	42,175	-	50,435
Land and land improvements	25,490	106,691	500	132,681
Building improvements	31,918	27,127	3,728	62,773
Office equipment	17,316	26,708	4,948	48,972
Vehicles	58,532	84,760	84,609	227,901
Machinery and equipment	316,367	271,887	-	588,254
Utility plants	1,619,241	1,402,833	-	3,022,074
Sewage disposal system	-	1,774,181	-	1,774,181
Less: accumulated depreciation	(1,260,636)	(1,420,422)	(92,314)	(2,773,372)
Total Noncurrent Assets	<u>816,488</u>	<u>2,315,940</u>	<u>1,471</u>	<u>3,133,899</u>
Total Assets	<u>1,414,094</u>	<u>3,053,422</u>	<u>272,384</u>	<u>4,739,900</u>
Liabilities				
Current Liabilities				
Accounts payable	26,687	5,638	5,517	37,842
Accrued liabilities	31,729	7,498	1,343	40,570
Interfund payables	2,273	1,737	690	4,700
Customer deposits	54,330	-	-	54,330
Notes payable - current portion	-	28,823	-	28,823
Total Current Liabilities	<u>115,019</u>	<u>43,696</u>	<u>7,550</u>	<u>166,265</u>
Long-Term Liabilities				
Notes payable - long-term portion	-	402,072	-	402,072
Total Liabilities	<u>115,019</u>	<u>445,768</u>	<u>7,550</u>	<u>568,337</u>
Net Position				
Net investment in capital assets	816,488	1,885,045	1,471	2,703,004
Unrestricted	482,587	722,609	263,363	1,468,559
Total Net Position	<u>\$ 1,299,075</u>	<u>\$ 2,607,654</u>	<u>\$ 264,834</u>	<u>\$ 4,171,563</u>

The accompanying notes are an integral part of this financial statement.

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Operating Revenues				
Charges for services	\$ 572,814	\$ 1,031,747	\$ 157,728	\$ 1,762,289
Miscellaneous	10,398	13,488	3,194	27,080
Total Operating Revenues	<u>583,212</u>	<u>1,045,235</u>	<u>160,922</u>	<u>1,789,369</u>
Operating Expenses				
Advertising	109	159	184	452
Communications and postage	5,179	4,531	2,056	11,766
Depreciation	57,639	81,748	182	139,569
Dues and subscriptions	422	377	-	799
Employee insurance	34,184	25,396	19,451	79,031
Employee retirement	22,791	22,548	8,607	53,946
Insurance and bonds	11,080	9,755	7,164	27,999
Miscellaneous	1,866	43	20	1,929
Motor fuel and lubricants	10,793	7,481	11,109	29,383
Office supplies	1,173	3,025	466	4,664
Other contractual services	57,737	1,906	33,382	93,025
Other supplies	3,180	2,076	388	5,644
Payroll tax expense	7,724	8,146	2,892	18,762
Professional fees	13,700	2,304	1,881	17,885
Repairs and maintenance	8,745	15,536	4,997	29,278
Salaries	108,156	112,052	40,672	260,880
Sewage treatment	-	857,254	-	857,254
Technical supplies	6,119	4,627	-	10,746
Travel	1,395	567	-	1,962
Uniforms	4,145	2,150	2,171	8,466
Utilities	13,435	17,413	-	30,848
Water purchases	268,825	-	-	268,825
Total Operating Expenses	<u>638,397</u>	<u>1,179,094</u>	<u>135,622</u>	<u>1,953,113</u>
Operating Income (Loss)	<u>(55,185)</u>	<u>(133,859)</u>	<u>25,300</u>	<u>(163,744)</u>
Non-Operating Revenues (Expenses)				
Grant revenue	-	3,694	-	3,694
Interest income	6,231	7,889	846	14,966
Interest expense	-	(4,499)	-	(4,499)
Lease executory cost	-	(905)	-	(905)
Total Non-Operating Revenues (Expenses)	<u>6,231</u>	<u>6,179</u>	<u>846</u>	<u>13,256</u>
Changes in Net Position	<u>(48,954)</u>	<u>(127,680)</u>	<u>26,146</u>	<u>(150,488)</u>
Net Position - July 1, 2013 - as Originally Reported	<u>1,348,029</u>	<u>2,735,334</u>	<u>238,688</u>	<u>4,322,051</u>
Net Position - June 30, 2014	<u>\$ 1,299,075</u>	<u>\$ 2,607,654</u>	<u>\$ 264,834</u>	<u>\$ 4,171,563</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Cash Flows from Operating Activities:				
Receipts from customers	\$ 594,435	\$ 1,060,120	\$ 160,596	\$ 1,815,151
Payments to employees for services	(171,250)	(169,083)	(71,244)	(411,577)
Payments to suppliers	(410,891)	(925,462)	(62,939)	(1,399,292)
Internal activity - payments to other funds	304	(16)	(15)	273
Net Cash Provided (Used) by Operating Activities	<u>12,598</u>	<u>(34,441)</u>	<u>26,398</u>	<u>4,555</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(21,402)	(22,779)	-	(44,181)
Principal payments	-	(28,536)	-	(28,536)
Interest payments	-	(4,523)	-	(4,523)
Grant revenue	-	3,694	-	3,694
Lease executory cost	-	(905)	-	(905)
Net Cash Used by Capital and Related Financing Activities	<u>(21,402)</u>	<u>(53,049)</u>	<u>-</u>	<u>(74,451)</u>
Cash Flows from Investing Activities:				
Interest income	6,231	7,889	846	14,966
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,573)</u>	<u>(79,601)</u>	<u>27,244</u>	<u>(54,930)</u>
Cash and Cash Equivalents - July 1, 2013	506,045	635,809	227,364	1,369,218
Cash and Cash Equivalents - June 30, 2014	<u>\$ 503,472</u>	<u>\$ 556,208</u>	<u>\$ 254,608</u>	<u>\$ 1,314,288</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (55,185)	\$ (133,859)	\$ 25,300	\$ (163,744)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	57,639	81,748	182	139,569
Change in assets and liabilities:				
Net receivables	(7,920)	(19,715)	(326)	(27,961)
Unbilled revenue	16,578	34,600	-	51,178
Accounts payable	(2,988)	3,742	879	1,633
Accrued liabilities	1,605	(941)	378	1,042
Customer deposits	2,565	-	-	2,565
Due to other funds	304	(16)	(15)	273
Net Cash Provided by Operating Activities	<u>\$ 12,598</u>	<u>\$ (34,441)</u>	<u>\$ 26,398</u>	<u>\$ 4,555</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUND
JUNE 30, 2014**

	<u>Agency Fund</u>
Assets	
Due from other funds	\$ 13,253
Restricted cash	<u>10,287</u>
Total Assets	<u>23,540</u>
Liabilities	
Payroll liabilities	<u>23,540</u>
Net Position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Beaver Dam, Kentucky's primary government (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. As required by GAAP, these financial statements present the City and its component unit, an entity for which the City is financially accountable. The more significant of the government's accounting policies are described below.

(A) Financial Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. There are two methods of presentation of component units:

- a. Blended component units, although legally separate entities from the City, are in substance, part of the City's operations and so data from this component unit is combined with data of the City. As of June 30, 2014, there were not any entities that met this criteria.
- b. Discretely presented component units are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the City. Only the discretely presented component unit disclosures considered essential to the fair presentation of the reporting entity's financial statements are presented in these notes. The following entity is reported as a discretely presented component unit.

The City of Beaver Dam Tourism Commission – The City of Beaver Dam Tourism Commission (Tourism Commission) is a separate component unit of the City, as it is governed by its own seven-member commission, members of which are appointed by the mayor. The Tourism Commission prepares its own financial statements, a summary of which is included in the City's Statements of Net Position and Activities. The Tourism Commission's separately issued financial statements may be obtained at Beaver Dam City Hall, 309 West Second Street, Beaver Dam, Kentucky 42320.

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the financial activities of the primary government (the City) and its component unit. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) Basis of Presentation

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Sanitation, Water, and Sewer Funds. The Water and Sewer Funds are reported as major funds in the current year.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund – Payroll Revolving Account. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

(C) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item ‘b’ below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Concluded)

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

(D) Cash and Investments

For the purpose of the Statement of Net Position and the proprietary fund Statement of Cash Flows, cash and cash equivalents includes all demand savings accounts and certificates of deposit of the City.

Investments are carried at cost.

(E) Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as interfund receivables and payables. Interfund receivables and payables between funds within governmental and business-type activities are eliminated in the Statement of Net Position.

(F) Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. The City uses the direct write-off method for uncollectible accounts receivable. Major receivable balances for the governmental activities consist of property taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes and other intergovernmental revenues, since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) Due from/to Component Unit

Amounts owed between the primary government (City) and its component unit are classified as "due to/from primary government and "due to/from component unit" on the Statement of Net Position. At year-end, the City reported \$81,184 due to the Tourism Commission for restaurant/transient room taxes collected by the City. This amount is expected to be settled within the next fiscal year.

(H) Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

(I) Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2014.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1970) have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	25-50 years
Furniture and fixtures	5-7 years
Vehicles	5-7 years
Machinery and equipment	3-20 years
Utility system	25-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

(K) Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of capital lease obligations and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for the proprietary funds is the same in the fund statements as it is in the government-wide statements.

(L) Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position - Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the City's bonds.
- c. Unrestricted net position - Consists of all other net position that does not meet the definition of the above two components and are available for general use by the City.

Fund Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) Equity Classifications (Continued)

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any nonspendable resources as of June 30, 2014.

Restricted

This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified Local Government Economic Assistance (LGEA) resources as being restricted because their use is restricted by state statute for general governmental expenditures. Municipal Road Aid (MRA) resources are restricted by state statute and county laws and are legally segregated for funding of municipal road improvements. Cemetery resources are restricted by trust covenants and state statute for the general care and maintenance of the cemetery.

Committed

This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2014.

Assigned

This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Commission or through the City Commission delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for general operating expenses of the Community Pride Fund.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) Equity Classifications (Concluded)

Unassigned

This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use restricted fund balance first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

(M) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(N) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are due and payable at that time. All unpaid taxes levied October 1 become delinquent November 15. All unpaid taxes at that time are subject to a 10% penalty and 12% interest per year. The City bills and collects its own property tax.

(O) Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

(P) Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, governmental expenditures are classified as current (further classified by function), debt service, and capital outlay. Proprietary funds are classified as operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

(Q) Nonexchange Transactions

The recognition of, respectively, assets, liabilities, and expenses/expenditures resulting from nonexchange transactions of the City of Beaver Dam are as follows:

Imposed nonexchange revenues – Property taxes are assessed January 1 of each year. The City does not have an enforceable legal claim to the taxes until one year from that date.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) Nonexchange Transactions (Concluded)

- 1) However, tax bills are mailed October of the year they are assessed and collected before the end of that fiscal year; therefore, the asset/revenue is recognized when it is received.

The City imposes a 6.9 percent insurance premium tax on insurance premiums sold within the City limits for casualty, automobile, inland marine and fire and allied perils. The tax is due no later than thirty (30) days after the end of each calendar quarter. The City is unable to accrue taxes due as of the end of the fiscal year because they have no means of knowing how much revenue has been earned; therefore the asset/revenue is recognized when it is received.

- 2) Government-mandated nonexchange transactions – The City receives Municipal Road Aid and Local Government Economic Assistance funds from the state of Kentucky. These funds are required to be spent for specific purposes. Resources are recognized as revenues when received and expenses/expenditures when paid.
- 3) Voluntary nonexchange transactions – The City receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

(R) Budgetary Information

Annual budgets are adopted on an accrual basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The City is required to submit estimated receipts and proposed expenditures to the city commissioners by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the city commission by July 1.

The City may change the original budget by transferring appropriations at the activity level; however, the City may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

(S) Impairment of Long-lived Assets

The City reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2014.

By its nature as a local governmental unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Fund Accounting Requirements

The city complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

Fund	Required By
Road Fund	State Law
LGEA Fund	State Law

(B) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain Commonwealth of Kentucky or political subdivision debt obligations, or surety bonds. As required by Kentucky Revised Statutes 66.480(1)(d) and 41.240(4), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

Investments of the City consists of one share of Ohio County Industrial Foundation stock stated at cost.

(C) Debt Restrictions and Covenants - General Obligation Debt

Kentucky Revised Statutes limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2014, the City incurred no such additional debt.

(D) Fund Equity Restrictions - Deficit Prohibition

Kentucky Revised Statutes prohibits the creation of a deficit fund balance in any individual fund. The City complied with this statute in all material respects for the year ended June 30, 2014.

NOTE 3 - CASH

At year-end, the carrying amount of the City's cash was \$4,433,550 and the bank balance was \$4,450,978. Of the total bank balance, \$573,815 was covered by federal depository insurance, \$1,963,762 was covered by federally guaranteed securities, and the remaining balance of \$1,913,401 would require collateralization. As of June 30, 2014, \$2,614,184 was pledged with securities held by the pledging banks' trust departments but not in the name of the City.

The deposits in excess of insurance coverage must be fully collateralized. All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the City's name.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 3 – CASH (CONCLUDED)

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government follows the requirements of KRS 41.240 (4) and does not have a deposit policy for custodial risk.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities and governmental funds consist of property tax receivables.

NOTE 5 - RESTRICTED ASSETS

Restricted assets consisted of the following as of June 30, 2014:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>
Governmental:	
MRA Fund	\$ 9,871
Cemetery Fund	160,960
LGEA Fund	189,990
Community Pride Fund	507
General Fund - Amphitheater	1,936,762
	<u>\$ 2,298,090</u>

NOTE 6 - ACCOUNTS PAYABLE

Payables in the General Fund and nonmajor governmental funds, governmental activities, enterprise funds, and business-type activities are composed of payables to vendors and taxing authorities.

NOTE 7 - INTERFUND BALANCES/TRANSFERS OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	MRA	\$ 10,000	Operations
General	Cemetery	4,000	Operations
		<u>\$14,000</u>	

At year-end, the City's interfund balances were as follows:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Payroll	\$ 8,872	Payroll
Sanitation	Payroll	690	Payroll
Sewer	Payroll	1,737	Payroll
Water	Payroll	1,954	Payroll
Water	Sewer	319	Advance for operations

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ 46,066	\$ 456,042	\$(3,646)	\$ 498,462
Land	342,871	27,157	-	370,028
Total Non-Depreciable Assets	388,937	483,199	(3,646)	868,490
Capital Assets				
Buildings	430,337	1,720	-	432,057
Land improvements	607,600	48,430	-	656,030
Furniture and fixtures	9,716	-	-	9,716
Vehicles	504,472	130,465	-	634,937
Machinery and equipment	747,880	40,563	(2,080)	786,363
Infrastructure	2,540,774	37,290	-	2,578,064
Total Capital Assets Being Depreciated	4,840,779	258,468	(2,080)	5,097,167
Less Accumulated Depreciation for				
Buildings	(183,779)	(9,979)	-	(193,758)
Land improvements	(24,223)	(25,634)	-	(49,857)
Furniture and fixtures	(9,716)	-	-	(9,716)
Vehicles	(438,414)	(19,899)	-	(458,313)
Machinery and equipment	(494,243)	(32,504)	2,080	(524,667)
Infrastructure	(1,551,523)	(102,605)	-	(1,654,128)
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	(2,701,898)	(190,621)	2,080	(2,890,439)
	<u>\$2,527,818</u>	<u>\$551,046</u>	<u>\$(3,646)</u>	<u>\$ 3,075,218</u>
<u>Governmental Activities</u>				
Depreciation Expense				
General government				\$ 6,240
Public safety				29,174
Streets				101,994
Cemetery				2,721
Parks and recreation				50,492
Total Depreciation Expense – Governmental Activities				<u>\$190,621</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 8 - CAPITAL ASSETS (CONCLUDED)

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business-Type Activities</u>				
Non-Depreciable Assets				
Construction in progress		\$		
	\$ 42,349	12,186	\$ (4,100)	\$ 50,435
Capital Assets				
Utility plants				
Waterworks	1,619,241	-	-	1,619,241
Wastewater treatment plant	1,402,833	-	-	1,402,833
Sewage disposal system	1,770,081	4,100	-	1,774,181
Land and land improvements	132,681	-	-	132,681
Machinery and equipment	573,785	14,469	-	588,254
Vehicles	210,375	17,526	-	227,901
Building improvements	62,773	-	-	62,773
Office equipment	48,972	-	-	48,972
Total Capital Assets Being Depreciated	5,820,741	36,095	-	5,856,836
Less Accumulated Depreciation for				
Utility plants				
Waterworks	(852,367)	(42,616)	-	(894,983)
Wastewater treatment plant	(612,506)	(34,264)	-	(646,770)
Sewage disposal system	(360,210)	(37,511)	-	(397,721)
Land and land improvements	(4,614)	(416)	-	(5,030)
Machinery and equipment	(517,972)	(18,517)	-	(536,489)
Vehicles	(207,594)	(4,239)	-	(211,833)
Building improvements	(29,589)	(1,985)	-	(31,574)
Office equipment	(48,951)	(21)	-	(48,972)
Total Accumulated Depreciation	(2,633,803)	(139,569)	-	(2,773,372)
Business-Type Activities Capital Assets, Net	\$3,229,287	\$(91,288)	\$ (4,100)	\$3,133,899
<u>Business-Type Activities</u>				
Depreciation Expense				
Water				\$ 57,639
Sewer				81,748
Sanitation				182
Total Depreciation Expense - Business-Type Activities				\$ 139,569

NOTE 9 - CAPITAL LEASE OBLIGATIONS

The City has entered into a capital lease agreement under which the related equipment (city park lights) will become the property of the City when all terms of the lease agreement are met. The stated interest rate is 4.85%

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9 - CAPITAL LEASE OBLIGATIONS (CONCLUDED)

Equipment and related accumulated depreciation under the capital lease are as follows:

	Governmental Activities
Equipment	\$ 130,000
Less: accumulated depreciation	(14,625)
Net value	\$ 115,375

As of June 30, 2014, capital lease annual amortization is as follows:

Year Ending June 30,	Governmental Activities
2015	\$ 29,993
2016	13,394
Total	43,387
Less interest	(2,653)
Present value of remaining payments	\$ 40,734

Amortization of leased equipment under capital assets is included with depreciation expense.

NOTE 10 - LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2014, the governmental long-term debt of the financial reporting entity consisted of the following:

	Current Portion	Noncurrent Portion	Total
1) Kentucky League of Cities – 3.75% interest rate, maturity date – March 1, 2028	\$ 10,441	\$ 183,738	\$ 194,179
2) Kentucky Bond Corporation – 2.00%–4.00% variable interest rate, maturity date – February 1, 2041	40,000	2,105,000	2,145,000
Darby Township – 0% interest rate, maturity date – July 31, 2015	24,000	20,000	44,000
Total Notes Payable	74,441	2,308,738	2,383,179
4) Musco Finance, LLC – 4.85% interest rate, maturity date – March 19, 2017	27,973	12,761	40,734
Total Capital Leases Payable	27,973	12,761	40,734
Total Governmental Activities	\$ 102,414	\$2,321,499	\$2,423,913

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Governmental activities include a note payable issued March 1, 2008, for the purchase of land for a park, a note issued May 2, 2014 for the construction of an amphitheater, and a note issued June 25, 2014 for a 1999 Pierce Rescue Pumper. Governmental activities also include a capital lease entered into on February 29, 2012 for the purchase of city park lights.

Business-type Activities:

As of June 30, 2014, the long-term debt payable from proprietary fund resources consisted of the following:

	Current Portion	Noncurrent Portion	Total
1) Kentucky Infrastructure Authority – 1% interest rate, maturity date – June 1, 2028	\$ 28,823	\$ 402,072	\$430,895

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Kentucky Bond Corporation	\$ -	\$2,145,000	\$ -	\$ 2,145,000	\$40,000
Darby Township	-	44,000	-	44,000	24,000
Kentucky League of Cities	204,160	-	9,981	194,179	10,441
Musco Finance, LLC	86,447	-	45,713	40,734	27,973
Total	\$290,607	\$2,189,000	\$55,694	\$2,423,913	\$102,414
Business-type Activities:					
KY Infrastructure Authority	\$459,431	\$ -	\$28,536	\$430,895	\$ 28,823

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2014, are as follows:

Governmental Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 102,414	\$ 57,951	\$ 160,365
2016	98,668	73,196	171,864
2017	66,433	71,228	137,661
2018	66,946	69,901	136,847
2019	67,496	68,557	136,053
2020-2024	381,624	317,469	699,093
2025-2029	435,332	260,435	695,767
2030-2034	450,000	193,088	643,088
2035-2039	565,000	104,925	669,925
2040-2041	190,000	10,000	200,000
	\$2,423,913	\$1,226,750	\$3,650,663

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10 - LONG-TERM DEBT (CONCLUDED)

Business-type Activities

<u>Fiscal Year Ending June 30,</u>	<u>Sewer Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$28,823	\$4,237	\$33,060
2016	29,112	3,948	33,060
2017	29,403	3,656	33,059
2018	29,698	3,362	33,060
2019	29,996	3,064	33,060
2020-2024	154,551	10,748	165,299
2025-2029	129,312	2,926	132,238
	<u>\$430,895</u>	<u>\$ 31,941</u>	<u>\$462,836</u>

NOTE 11 - JOINT VENTURE

The City of Beaver Dam, Kentucky, has entered into a joint venture with the City of Hartford, Kentucky, to form a joint planning and zoning commission. The City of Beaver Dam contributes \$3,500 annually toward the operating expenses of the commission. Complete financial information for the Planning and Zoning Commission can be obtained from Nancy Hoover, Planning and Zoning Administrator at 309 West 2nd Street, P.O. Box 408, Beaver Dam, KY 42320. The City does not have an equity interest in this organization.

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

The City in conjunction with Ohio County, City of Centertown and City of Hartford, created the Ohio County Regional Wastewater District. The Ohio County Regional Wastewater District is a joint sewer agency created to own, manage, control and operate a comprehensive wastewater treatment facility within Ohio County, Kentucky. The District's board is comprised of two members of each participating municipality. The District completed construction during 2008 and began facility operations at that time.

NOTE 13 - CONTINGENCIES

In the normal course of operations, the City participates in various federal and state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of such is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

The City has been awarded a \$500,000 CDBG grant toward the construction of a new fire station. As of June 30, 2014, \$326,448 had been spent on engineering and administrative fees for the construction project.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The City manages these various risks of loss as follows:

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

For the fiscal year ended June 30, 2014, City of Beaver Dam, Kentucky, was a member of the Kentucky League of Cities Insurance Service (KLCIS). KLCIS is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 15 - BUDGET VIOLATIONS

During the current fiscal year, the City's general fund incurred line item expenditures in excess of budget.

NOTE 16 - DEFERRED COMPENSATION

The commission voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.275 to provide administration of tax shelter supplementary retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

The City extends credit to all citizens who live within the City limits and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

NOTE 18 - DEFICIT FUND BALANCES

No funds ended the year with a deficit balance; however, both the Cemetery and Community Pride funds incurred expenditures in excess of revenues and the Water and Sewer Funds had a decline in net position.

NOTE 19 - EMPLOYEE RETIREMENT SYSTEM

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 19 - EMPLOYEE RETIREMENT SYSTEM (CONCLUDED)

Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

The City of Beaver Dam is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statue 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

Contributions – For the year ended June 30, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.535(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% of each employee's wages for non-hazardous classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 132,955	100%
2013	\$ 136,710	100%
2012	\$ 128,149	100%

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE 20 - RESTAURANT AND TRANSIENT ROOM TAX

Effective April 1, 2013, the City established The Beaver Dam Tourism Commission for the purpose of promoting and developing tourist activities and facilities. Pursuant to KRS 91A.350 through KRS 91A.390, the City imposed a 3% restaurant and 1% transient room tax on entities doing business within the city limits to fund the operations of the Commission. All monies collected from the taxes are to be turned over to the Tourism Commission, as required by KRS 91A.350 to 91A.390. The City shall receive an administrative fee of 10% of the funds collected for the costs of collecting and processing the transient room tax and the restaurant tax. At year-end, the City owed the Tourism Commission \$81,184 for taxes collected and accrued.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 21 - NEW ACCOUNTING STANDARDS

For 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires debt issuance costs to be recongnized as an expense when incurred.

NOTE 22 - RELATED PARTY TRANSACTIONS

As explained in Note 1, The City of Beaver Dam Tourism Commission is a component unit of the City of Beaver Dam, Kentucky. The City paid \$490,998 to the Commission during the current year for the restaurant and transient room taxes that were collected. The City received \$296,446 from the Commission for park maintenance and development and various capital projects.

Per Note 11, the City is a member of the Ohio County Regional Wastewater District (District). During the year ended June 30, 2014, the City paid the District \$857,254 for sewer disposal.

NOTE 23 - PRIOR-PERIOD ADJUSTMENT

Effective July 1, 2013, the City began accruing its insurance premiums tax. Accordingly, an adjustment was made to fund balance and net position to reflect the beginning balance of \$61,920.

NOTE 24 - SUBSEQUENT EVENTS

City of Beaver Dam's management has evaluated and considered the need to recognize or disclose subsequent events through January 26, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2014, have not been evaluated by management.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services	\$ 108,700	\$ 108,700	\$ 40,135	\$ (68,565)
Interest income	2,000	2,000	2,701	701
Intergovernmental revenues	554,600	554,600	350,096	(204,504)
Licenses and permits	15,000	15,000	12,808	(2,192)
Miscellaneous revenues	117,000	117,000	2,826	(114,174)
Payments from component unit	-	-	296,446	296,446
Taxes	909,550	909,550	1,355,128	445,578
Total Revenues	<u>1,706,850</u>	<u>1,706,850</u>	<u>2,060,140</u>	<u>353,290</u>
Expenditures				
Current:				
Code enforcement	18,770	18,770	19,169	(399)
General government	194,390	194,390	163,308	31,082
Parks and recreation	116,515	171,515	32,886	138,629
Public safety:				
Fire	32,700	56,700	26,045	30,655
Police	446,200	446,200	431,541	14,659
Tourism-payment to component unit	180,000	405,000	490,998	(85,998)
Debt Service				
Principal	8,000	8,000	55,694	(47,694)
Interest	1,000	1,000	4,424	(3,424)
Debt issuance costs	-	-	80,650	(80,650)
Capital Outlay	508,800	508,800	683,272	(174,472)
Total Expenditures	<u>1,506,375</u>	<u>1,810,375</u>	<u>1,987,987</u>	<u>(177,612)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>200,475</u>	<u>(103,525)</u>	<u>72,153</u>	<u>175,678</u>
Other Financing Sources (Uses)				
Proceeds from issuance of debt	-	-	2,189,000	2,189,000
Operating transfers out	(120,000)	(120,000)	(14,000)	106,000
Total Other Financing Sources (Uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>2,175,000</u>	<u>2,295,000</u>
Net Changes in Fund Balance	80,475	(223,525)	2,247,153	2,470,678
Fund Balance (Deficit) - July 1, 2013	<u>(678,735)</u>	<u>(1,087,910)</u>	<u>450,216</u>	<u>1,538,126</u>
Fund Balance (Deficit) - June 30, 2014	<u>\$ (598,260)</u>	<u>\$ (1,311,435)</u>	<u>\$ 2,697,369</u>	<u>\$ 4,008,804</u>

See accompanying note to required supplementary information.

**CITY OF BEAVER DAM, KENTUCKY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - BUDGET

The City prepares both its financial statements and budget using accounting principles generally accepted in the United States of America (GAAP). Accordingly, there is no difference in revenues, expenditures, and changes in fund balance between the financial statements and its budget presentation.

SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Special Revenue Funds</u>				<u>Total Nonmajor Funds</u>
	<u>Cemetery Fund</u>	<u>Community Pride Fund</u>	<u>LGEA Fund</u>	<u>MRA Fund</u>	
Assets					
Restricted cash	\$ 160,960	\$ 507	\$ 189,990	\$ 9,871	\$ 361,328
Investments - noncurrent	1,000	-	-	-	1,000
Total Assets	<u>\$ 161,960</u>	<u>\$ 507</u>	<u>\$ 189,990</u>	<u>\$ 9,871</u>	<u>\$ 362,328</u>
Liabilities					
Accounts payable	\$ 390	\$ -	\$ -	\$ 844	\$ 1,234
Accrued liabilities	935	-	-	816	1,751
Total Liabilities	<u>1,325</u>	<u>-</u>	<u>-</u>	<u>1,660</u>	<u>2,985</u>
Fund Balance					
Restricted for:					
Cemetery maintenance	160,635	-	-		160,635
Municipal roads	-	-	-	8,211	8,211
LGEA	-	-	189,990	-	189,990
Assigned to community projects	-	507	-	-	507
Unassigned	-	-	-	-	-
Total Fund Balances	<u>160,635</u>	<u>507</u>	<u>189,990</u>	<u>8,211</u>	<u>359,343</u>
Total Liabilities and Fund Balances	<u>\$ 161,960</u>	<u>\$ 507</u>	<u>\$ 189,990</u>	<u>\$ 9,871</u>	<u>\$ 362,328</u>

**CITY OF BEAVER DAM, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Special Revenue Funds</u>				Total Nonmajor Funds
	<u>Cemetery Fund</u>	<u>Community Pride Fund</u>	<u>LGEA Fund</u>	<u>MRA Fund</u>	
Revenues					
Charges for services	\$ 17,250	\$ 135	\$ -	\$ -	\$ 17,385
Interest income	624	-	341	39	1,004
Intergovernmental revenues	-	-	76,605	78,698	155,303
Miscellaneous revenue	6,391	39	9,850	9,409	25,689
Total Revenues	<u>24,265</u>	<u>174</u>	<u>86,796</u>	<u>88,146</u>	<u>199,381</u>
Expenditures					
Current:					
Cemetery	32,564	-	-	-	32,564
Community Pride project	-	385	-	-	385
Streets	-	-	-	89,446	89,446
Capital Outlay	-	-	52,748	2,000	54,748
Total Expenditures	<u>32,564</u>	<u>385</u>	<u>52,748</u>	<u>91,446</u>	<u>177,143</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,299)	(211)	34,048	(3,300)	22,238
Operating transfers in	4,000	-	-	10,000	14,000
Net Change in Fund Balance	(4,299)	(211)	34,048	6,700	36,238
Fund Balance - July 1, 2013	164,934	718	155,942	1,511	323,105
Fund Balance - June 30, 2014	<u>\$ 160,635</u>	<u>\$ 507</u>	<u>\$ 189,990</u>	<u>\$ 8,211</u>	<u>\$ 359,343</u>

**CITY OF BEAVER DAM, KENTUCKY
SCHEDULE OF CHARGES FOR SERVICES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Charges for Services:				
Water collections	\$ 501,144	\$ -	\$ -	\$ 501,144
Sewer collections	-	1,021,797	-	1,021,797
Sanitation collections	-	-	155,008	155,008
Public fire protection	8,290	-	-	8,290
Meter charges	3,750	-	-	3,750
Reconnect fees	7,905	-	-	7,905
Tapping charges	-	750	-	750
Lift station maintenance fee	-	4,000	-	4,000
Penalties	8,428	5,200	2,720	16,348
Aqualine billing	43,297	-	-	43,297
	<u>\$ 572,814</u>	<u>\$ 1,031,747</u>	<u>\$ 157,728</u>	<u>\$ 1,762,289</u>



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA
CHRISTI A. BROOKS, CPA
Telephone (270) 756-5704
FAX (270) 756-5927

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

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Commissioners
City of Beaver Dam, 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 Beaver Dam, Kentucky (City) 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, and have issued our report thereon dated January 26, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

January 26, 2015

INDEPENDENT AUDITORS' REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA

CHRISTI A. BROOKS, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

February 9, 2015

Honorable Mayor and Commissioners
City of Beaver Dam, 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 Beaver Dam, Kentucky as of and for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Beaver Dam, Kentucky are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental and business-type activities and the proprietary fund were:

Management's estimate of depreciation expense is based on the estimated useful lives of fixed assets. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 26, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Mayor, commissioners, and management of the City of Beaver Dam, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Drane & Company, PLLC
Certified Public Accountants