

CITY OF BEAVER DAM, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2017
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

CITY OF BEAVER DAM, KENTUCKY
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INDEPENDENT AUDITOR'S 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, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City) as of and for the year ended June 30, 2017, 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 on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. However, because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit.

Basis for Disclaimer of Opinion

As discussed in item 17-2 in the Schedule of Findings and Responses on page 45, the City of Beaver Dam Tourism Commission lacked support for material cash receipts and disbursements. As a result, there was insufficient evidence upon which to base an audit opinion for the aggregate discretely presented component unit.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit, the City of Beaver Dam Tourism Commission. Accordingly, we do not express an opinion on the financial statements of the aggregate discretely presented component unit, the City of Beaver Dam Tourism Commission, as of and for the year ended June 30, 2017.

Unqualified 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 (City), as of and for the year ended June 30, 2017, and the respective changes in its 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 35 and 36 and the pension schedules and notes on pages 37 through 39 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 40 through 42 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 40 through 42 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 40 through 42 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 18, 2018 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 18, 2018

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,382,795	\$ 1,472,000	\$ 2,854,795	\$ -
Accounts receivable	169,148	287,824	456,972	-
Interfund receivables	1	-	1	-
Due from component unit	106,531	-	106,531	-
Due from primary government	-	-	-	47,237
Unbilled revenue	-	77,347	77,347	-
Total Current Assets	<u>1,658,475</u>	<u>1,837,171</u>	<u>3,495,646</u>	<u>47,237</u>
Noncurrent Assets				
Restricted cash	605,624	-	605,624	52,736
Investments - noncurrent	1,000	-	1,000	-
Capital assets not being depreciated	459,385	-	459,385	-
Capital assets, net of depreciation	4,943,908	3,137,436	8,081,344	-
Total Noncurrent Assets	<u>6,009,917</u>	<u>3,137,436</u>	<u>9,147,353</u>	<u>52,736</u>
Total Assets	<u>7,668,392</u>	<u>4,974,607</u>	<u>12,642,999</u>	<u>99,973</u>
Deferred Outflows of Resources				
County Employees Retirement pension	144,300	143,300	287,600	-
Liabilities				
Current Liabilities				
Accounts payable	42,153	38,891	81,044	19,967
Accrued liabilities	103,335	27,807	131,142	-
Interfund payables	10,762	4,844	15,606	-
Due to component unit	47,237	-	47,237	-
Due to primary government	-	-	-	106,531
Customer deposits	-	67,650	67,650	-
Current portion of long-term debt	141,901	29,698	171,599	-
Total Current Liabilities	<u>345,388</u>	<u>168,890</u>	<u>514,278</u>	<u>126,498</u>
Noncurrent Liabilities				
Net pension liability	549,941	666,204	1,216,145	-
Notes and leases payable	2,190,457	313,859	2,504,316	-
Total Noncurrent Liabilities	<u>2,740,398</u>	<u>980,063</u>	<u>3,720,461</u>	<u>-</u>
Total Liabilities	<u>3,085,786</u>	<u>1,148,953</u>	<u>4,234,739</u>	<u>126,498</u>
Deferred Inflows of Resources				
County Employees Retirement pension	1,462	1,771	3,233	-
Net Position				
Net investment in capital assets	3,070,935	2,793,879	5,864,814	-
Restricted for:				
Municipal roads	21,845	-	21,845	-
Cemetery maintenance	168,824	-	168,824	-
Economic assistance	296,239	-	296,239	-
Community pride	282	-	282	-
Tourism/amphitheater	118,434	-	118,434	-
Unrestricted, expendable	1,048,885	1,173,304	2,222,189	(26,525)
Total Net Position	<u>\$ 4,725,444</u>	<u>\$ 3,967,183</u>	<u>\$ 8,692,627</u>	<u>\$ (26,525)</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, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue Changes in Net Position			Component Unit Tourism Commission
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
Cemetery	\$ 35,833	\$ 27,750	\$ -	\$ -	\$ (8,083)	\$ -	\$ (8,083)	\$ -
Code enforcement	10,790	-	-	-	(10,790)	-	(10,790)	-
Community pride project	-	45	-	-	45	-	45	-
General government	264,136	6,775	250	-	(257,111)	-	(257,111)	-
Parks and recreation	253,827	520	12,250	3,800	(237,257)	-	(237,257)	-
Public safety:								
Fire	81,223	15,903	27,000	3,200	(35,120)	-	(35,120)	-
Police	476,759	-	44,557	7,514	(424,688)	-	(424,688)	-
Streets	202,516	-	-	127,543	(74,973)	-	(74,973)	-
Tourism	522,373	-	-	-	(522,373)	-	(522,373)	-
Total Governmental Activities	1,847,457	50,993	84,057	142,057	(1,570,350)	-	(1,570,350)	-
Business-Type Activities								
Water utilities	648,419	667,349	-	-	-	18,930	18,930	-
Sewer services	1,086,470	1,258,788	-	-	-	172,318	172,318	-
Sanitation services	203,196	166,714	-	-	-	(36,482)	(36,482)	-
Total Business-Type Activities	1,938,085	2,092,851	-	-	-	154,766	154,766	-
Total Primary Government	\$3,785,542	\$2,143,844	\$ 84,057	\$ 142,057	\$ (1,570,350)	\$ 154,766	\$ (1,415,584)	\$ -
Component Unit								
Tourism Commission	\$ 725,978	\$ -	\$ -	\$ -				\$ (725,978)
General Revenues:								
Taxes:								
Ad valorem taxes					\$ 40,487	\$ -	\$ 40,487	\$ -
Alcohol tax					168,659	-	168,659	-
Franchise taxes					163,679	-	163,679	-
Insurance premium taxes					271,662	-	271,662	-
Property taxes					393,199	-	393,199	-
Restaurant and transient room taxes					580,415	-	580,415	-
Occupational licenses					20,735	-	20,735	-
Gain on disposition of fixed assets					-	3,680	3,680	-
Interest income					5,754	5,277	11,031	-
Other revenue					12,673	-	12,673	143,932
Payment from component unit					284,686	-	284,686	-
Payment from primary government					-	-	-	522,374
Total					1,941,949	8,957	1,950,906	666,306
Changes in Net Position					371,599	163,723	535,322	(59,672)
Net Position - July 1, 2016					4,353,845	3,803,460	8,157,305	33,147
Net Position - June 30, 2017					\$ 4,725,444	\$ 3,967,183	\$ 8,692,627	\$ (26,525)

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

**CITY OF BEAVER DAM, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,382,795	\$ -	\$ 1,382,795
Receivables, net	169,148	-	169,148
Due from component unit	106,531	-	106,531
Due from other funds	-	1	1
Restricted cash	118,434	487,190	605,624
Investments - noncurrent	-	1,000	1,000
Total Assets	<u>\$ 1,776,908</u>	<u>\$ 488,191</u>	<u>\$ 2,265,099</u>
Liabilities			
Accounts payable	\$ 27,968	\$ 14,185	\$ 42,153
Accrued liabilities	100,709	2,626	103,335
Due to component unit	47,237	-	47,237
Interfund payables	10,185	577	10,762
Total Liabilities	<u>186,099</u>	<u>17,388</u>	<u>203,487</u>
Fund Balance			
Restricted for:			
Cemetery maintenance	-	168,551	168,551
Economic assistance	-	296,239	296,239
Municipal roads	-	5,731	5,731
Tourism/amphitheater	118,434	-	118,434
Assigned to community projects	-	282	282
Unassigned	1,472,375	-	1,472,375
Total Fund Balance	<u>1,590,809</u>	<u>470,803</u>	<u>2,061,612</u>
Total Liabilities and Fund Balance	<u>\$ 1,776,908</u>	<u>\$ 488,191</u>	<u>\$ 2,265,099</u>

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

Total Governmental Fund Balance **\$ 2,061,612**

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.	5,403,293
Deferred outflows of resources for County Employees Retirement System pension is not reported in the governmental funds.	144,300
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(2,882,299)
Deferred inflows of resources for County Employees Retirement System pension is not reported in the governmental funds.	<u>(1,462)</u>

Net Position of Governmental Activities **\$ 4,725,444**

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, 2017

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenues			
Charges for services	\$ 35,548	\$ 27,795	\$ 63,343
Interest income	4,496	1,258	5,754
Intergovernmental revenues	86,221	127,543	213,764
Licenses and permits	20,735	-	20,735
Miscellaneous revenues	8,965	3,708	12,673
Payments from component unit	284,686	-	284,686
Taxes	1,618,101	-	1,618,101
Total Revenues	<u>2,058,752</u>	<u>160,304</u>	<u>2,219,056</u>
Expenditures			
Current:			
Cemetery	-	34,777	34,777
Code enforcement	10,790	-	10,790
General government	248,591	-	248,591
Public safety:			
Fire	46,962	-	46,962
Police	449,984	-	449,984
Parks and recreation	64,861	-	64,861
Streets	-	147,578	147,578
Tourism - payment to component unit	522,373	-	522,373
Debt Service:			
Principal	66,392	-	66,392
Interest	70,651	-	70,651
Capital Outlay	325,375	38,617	363,992
Total Expenditures	<u>1,805,979</u>	<u>220,972</u>	<u>2,026,951</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>252,773</u>	<u>(60,668)</u>	<u>192,105</u>
Other Financing Sources (Uses)			
Proceeds from issuance of debt	175,000	-	175,000
Operating transfers in	-	80,000	80,000
Operating transfers out	(80,000)	-	(80,000)
Total Other Financing Sources (Uses)	<u>95,000</u>	<u>80,000</u>	<u>175,000</u>
Net Change in Fund Balance	347,773	19,332	367,105
Fund Balance - July 1, 2016	<u>1,243,036</u>	<u>451,471</u>	<u>1,694,507</u>
Fund Balance - June 30, 2017	<u>\$ 1,590,809</u>	<u>\$ 470,803</u>	<u>\$ 2,061,612</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, 2017**

Net Changes in Fund Balances - Governmental Funds **\$ 367,105**

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 outlay (\$363,992) exceeded depreciation (\$247,998). 115,994

In the Statement of Activities, the change in net pension liability and deferred inflows and outflows is reported, whereas the change in this liability is not reported in the governmental funds. Thus the change in net position differs from the change in fund balance by the amount of the increase or decrease in this account. (2,892)

Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds (\$175,000) exceeded repayments (\$66,392). (108,608)

Changes in Net Position of Governmental Activities **\$ 371,599**

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

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Assets				
Current Assets				
Cash and cash equivalents	\$ 600,938	\$ 711,147	\$ 159,915	\$ 1,472,000
Trade accounts receivable - net	92,081	178,374	17,369	287,824
Interfund receivables	-	319	-	319
Unbilled revenue	27,591	49,756	-	77,347
Total Current Assets	<u>720,610</u>	<u>939,596</u>	<u>177,284</u>	<u>1,837,490</u>
Noncurrent Assets				
Land and land improvements	25,490	133,182	500	159,172
Building improvements	31,918	30,377	3,728	66,023
Office equipment	17,316	26,708	4,948	48,972
Vehicles	78,523	78,560	217,400	374,483
Machinery and equipment	319,894	264,723	-	584,617
Utility plants	1,670,213	1,407,183	-	3,077,396
Sewage disposal system	-	2,020,598	-	2,020,598
Less: accumulated depreciation	(1,413,065)	(1,651,765)	(128,995)	(3,193,825)
Total Noncurrent Assets	<u>730,289</u>	<u>2,309,566</u>	<u>97,581</u>	<u>3,137,436</u>
Total Assets	<u>1,450,899</u>	<u>3,249,162</u>	<u>274,865</u>	<u>4,974,926</u>
Deferred Outflows of Resources				
County Employees Retirement pension	53,796	62,008	27,496	143,300
Liabilities				
Current Liabilities				
Accounts payable	30,192	4,411	4,288	38,891
Accrued liabilities	13,960	11,473	2,374	27,807
Interfund payables	1,643	2,595	925	5,163
Customer deposits	67,650	-	-	67,650
Current portion of long-term debt	-	29,698	-	29,698
Total Current Liabilities	<u>113,445</u>	<u>48,177</u>	<u>7,587</u>	<u>169,209</u>
Noncurrent Liabilities				
Net pension liability	270,471	266,822	128,911	666,204
Notes and leases payable	-	313,859	-	313,859
Total Noncurrent Liabilities	<u>270,471</u>	<u>580,681</u>	<u>128,911</u>	<u>980,063</u>
Total Liabilities	<u>383,916</u>	<u>628,858</u>	<u>136,498</u>	<u>1,149,272</u>
Deferred Inflows of Resources				
County Employees Retirement pension	719	709	343	1,771
Net Position				
Net investment in capital assets	730,289	1,966,009	97,581	2,793,879
Unrestricted	389,771	715,594	67,939	1,173,304
Total Net Position	<u>\$ 1,120,060</u>	<u>\$ 2,681,603</u>	<u>\$ 165,520</u>	<u>\$ 3,967,183</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, 2017

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Operating Revenues				
Charges for services	\$ 659,741	\$ 1,244,357	\$ 166,708	\$ 2,070,806
Miscellaneous	7,608	14,431	6	22,045
Total Operating Revenues	<u>667,349</u>	<u>1,258,788</u>	<u>166,714</u>	<u>2,092,851</u>
Operating Expenses				
Advertising	-	-	346	346
Communications and postage	5,816	4,125	1,715	11,656
Depreciation	54,005	85,964	19,028	158,997
Dues and subscriptions	956	15	-	971
Employee insurance	17,242	29,500	17,231	63,973
Employee retirement	35,857	47,602	44,388	127,847
Insurance and bonds	14,269	19,749	15,699	49,717
Miscellaneous	8,936	138	130	9,204
Motor fuel and lubricants	8,546	6,343	7,773	22,662
Office supplies	1,170	1,433	608	3,211
Other contractual services	79,626	-	41,839	121,465
Other supplies	2,709	2,292	662	5,663
Payroll tax expense	7,590	9,358	3,400	20,348
Professional fees	21,008	5,752	2,725	29,485
Repairs and maintenance	8,796	23,749	525	33,070
Salaries	79,398	125,271	44,713	249,382
Sewage treatment	-	681,839	-	681,839
Technical supplies	16,327	15,772	-	32,099
Travel	1,604	-	-	1,604
Uniforms	4,585	2,776	2,414	9,775
Utilities	12,565	20,429	-	32,994
Water purchases	267,414	-	-	267,414
Total Operating Expenses	<u>648,419</u>	<u>1,082,107</u>	<u>203,196</u>	<u>1,933,722</u>
Operating Income (Loss)	<u>18,930</u>	<u>176,681</u>	<u>(36,482)</u>	<u>159,129</u>
Non-Operating Revenues (Expenses)				
Gain on disposal of fixed assets	3,680	-	-	3,680
Interest income	2,389	2,488	400	5,277
Interest expense	-	(3,632)	-	(3,632)
Lease executory cost	-	(731)	-	(731)
Total Non-Operating Revenues (Expenses)	<u>6,069</u>	<u>(1,875)</u>	<u>400</u>	<u>4,594</u>
Changes in Net Position	<u>24,999</u>	<u>174,806</u>	<u>(36,082)</u>	<u>163,723</u>
Net Position - July 1, 2016	<u>1,095,061</u>	<u>2,506,797</u>	<u>201,602</u>	<u>3,803,460</u>
Net Position - June 30, 2017	<u>\$ 1,120,060</u>	<u>\$ 2,681,603</u>	<u>\$ 165,520</u>	<u>\$ 3,967,183</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, 2017

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Cash Flows from Operating Activities:				
Receipts from customers	\$ 665,163	\$ 1,271,577	\$ 164,583	\$ 2,101,323
Payments to employees for services	(138,507)	(189,700)	(75,239)	(403,446)
Payments to suppliers	(454,746)	(786,631)	(75,765)	(1,317,142)
Internal activity - payments to other funds	1,793	3,459	1,196	6,448
Net Cash Provided by Operating Activities	<u>73,703</u>	<u>298,705</u>	<u>14,775</u>	<u>387,183</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(49,596)	(36,449)	-	(86,045)
Principal payments	-	(29,403)	-	(29,403)
Interest payments	-	(3,655)	-	(3,655)
Gain on disposition of fixed assets	3,680	-	-	3,680
Lease executory cost	-	(731)	-	(731)
Net Cash Used by Capital and Related Financing Activities	<u>(45,916)</u>	<u>(70,238)</u>	<u>-</u>	<u>(116,154)</u>
Cash Flows from Investing Activities:				
Interest income	2,389	2,488	400	5,277
Net Increase in Cash and Cash Equivalents	30,176	230,955	15,175	276,306
Cash and Cash Equivalents - July 1, 2016	570,762	480,192	144,740	1,195,694
Cash and Cash Equivalents - June 30, 2017	<u>\$ 600,938</u>	<u>\$ 711,147</u>	<u>\$ 159,915</u>	<u>\$ 1,472,000</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 18,930	\$ 176,681	\$ (36,482)	\$ 159,129
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	54,005	85,964	19,028	158,997
Change in assets and liabilities:				
Net receivables	(4,372)	2,020	(2,131)	(4,483)
Interfund receivables	469	864	271	1,604
Unbilled revenue	761	10,769	-	11,530
Deferred outflows of resources	(3,986)	(14,359)	(8,091)	(26,436)
Accounts payable	(419)	(2,219)	(1,329)	(3,967)
Accrued liabilities	(21,240)	(736)	(1,188)	(23,164)
Customer deposits	1,425	-	-	1,425
Net pension liability	26,087	36,417	43,429	105,933
Deferred inflows of resources	719	709	343	1,771
Due to other funds	1,324	2,595	925	4,844
Net Cash Provided by Operating Activities	<u>\$ 73,703</u>	<u>\$ 298,705</u>	<u>\$ 14,775</u>	<u>\$ 387,183</u>

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

CITY OF BEAVER DAM, KENTUCKY
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 JUNE 30, 2017

	Agency Fund
Assets	
Due from other funds	\$ 15,606
Restricted cash	12,963
Total Assets	28,569
 Liabilities	
Due to other funds	1
Payroll liabilities	28,568
Total Liabilities	28,569
 Net Position	 \$ -

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, 2017**

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, 2017, 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.

(B) Basis of Presentation

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, 2017

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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.

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.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City other than debt service payments made by enterprise funds.

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.

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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 include 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.

(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 \$47,237 due to the Tourism Commission for restaurant/transient room taxes collected by the City. The City also reported \$106,531 due from the Tourism Commission for debt service reimbursements. These amounts are expected to be settled within the next fiscal year.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) Restricted Assets

Restricted assets in the governmental funds consist of cash legally restricted for perpetual care of the cemetery and to meet the requirements of state funding. Proprietary fund restricted assets include cash and investments that are legally restricted as to their use. The proprietary restricted assets are related to debt retirement and utility water deposits.

(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) 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 Financial Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets over \$1,000 are capitalized at cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at acquisition value. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003.

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

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(L) 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. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are expensed in the period incurred.

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. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses in the current period. Issuance costs are reported as debt issuance expenditures in the period incurred. The accounting for the proprietary funds is the same in the fund statements as it is in the government-wide statements.

(M) Equity Classifications

Government-wide Financial 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 Financial 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, 2017

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (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, 2017.

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. Certain funds have been restricted for the repayment of debt related to the construction of an amphitheater.

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, 2017.

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, 2017

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(N) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) Nonexchange Transactions

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

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 1) Imposed nonechange 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. 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.

- 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.

(S) 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.

(T) 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, 2017.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

(U) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(V) Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the deferred amounts related to pensions in the Statement of Net Position in this category. Deferred amounts related to pensions include pension contributions made during the current fiscal year but applicable to a future measurement period of the net pension liability.

(W) Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City reports the deferred charge on refunding and deferred amount related to pensions in the Statement of Net Position in this category.

(X) Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

(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 Road and LGEA Funds restricted by state law.

(B) 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, 2017.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)

(C) 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. The only investment of the City is one share of Ohio County Industrial Foundation stock stated at cost.

(D) 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, 2017, the City incurred no such additional debt.

NOTE 3 - CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the City's cash was \$3,473,382 and the bank balance was \$3,582,279. Of the total bank balance, \$574,467 was covered by federal depository insurance, \$118,434 was covered by federally guaranteed securities, and the remaining balance of \$2,889,378 would require collateralization. As of June 30, 2017, \$3,696,755 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.

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 - RESTRICTED NET POSITION

Restricted net position consisted of the following as of June 30, 2017:

Net Position	Amount
Governmental:	
MRA Fund	\$ 21,845
Cemetery Fund	168,824
LGEA Fund	296,239
Community Pride Fund	282
General Fund - Amphitheater	118,434
	\$ 605,624

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ -	\$ 18,199	\$ -	\$ 18,199
Land	441,186	-	-	441,186
Total Non-Depreciable Assets	441,186	18,199	-	459,385
Capital Assets				
Buildings	3,269,926	292,361	-	3,562,287
Land improvements	732,967	-	-	732,967
Furniture and fixtures	9,716	-	-	9,716
Vehicles	646,147	38,617	-	684,764
Machinery and equipment	845,458	14,815	(3,170)	857,103
Infrastructure	2,654,771	-	-	2,654,771
Total Capital Assets Being Depreciated	8,158,985	345,793	(3,170)	8,501,608
Less Accumulated Depreciation for				
Buildings	(346,067)	(85,084)	-	(431,151)
Land improvements	(113,388)	(33,350)	-	(146,738)
Furniture and fixtures	(9,716)	-	-	(9,716)
Vehicles	(505,839)	(40,865)	-	(546,704)
Machinery and equipment	(572,308)	(33,038)	3,170	(602,176)
Infrastructure	(1,765,554)	(55,661)	-	(1,821,215)
Total Accumulated Depreciation	(3,312,872)	(247,998)	3,170	(3,557,700)
Capital Assets, Net	<u>\$ 5,287,299</u>	<u>\$ 115,994</u>	<u>\$ -</u>	<u>\$ 5,403,293</u>
<u>Governmental Activities</u>				
Depreciation Expense:				
General government				\$ 14,688
Public safety				59,238
Streets				54,701
Cemetery				1,056
Parks and recreation				118,315
Total Depreciation Expense – Governmental Activities				<u>\$ 247,998</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 5 - CAPITAL ASSETS (CONCLUDED)

	<u>Primary Government</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	
<u>Business-Type Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ 31,635	\$ 19,337	\$(50,972)	\$ -
Capital Assets				
Utility plants				
Waterworks	1,619,241	50,972	-	1,670,213
Wastewater treatment plant	1,402,833	4,350	-	1,407,183
Sewage disposal system	2,003,438	17,159	-	2,020,597
Land and land improvements	150,933	8,239	-	159,172
Machinery and equipment	592,642	3,451	(11,475)	584,618
Vehicles	348,292	30,259	(4,068)	374,483
Building improvements	62,773	3,250	-	66,023
Office equipment	48,972	-	-	48,972
Total Capital Assets Being Depreciated	<u>6,229,124</u>	<u>117,680</u>	<u>(15,543)</u>	<u>6,331,261</u>
Less Accumulated Depreciation for				
Utility plants				
Waterworks	(980,215)	(42,870)	-	(1,023,085)
Wastewater treatment plant	(715,298)	(34,279)	-	(749,577)
Sewage disposal system	(477,930)	(45,034)	-	(522,964)
Land and land improvements	(7,688)	(2,057)	-	(9,745)
Machinery and equipment	(561,867)	(5,982)	11,475	(556,374)
Vehicles	(223,833)	(27,519)	4,068	(247,284)
Building improvements	(34,568)	(1,256)	-	(35,824)
Office equipment	(48,972)	-	-	(48,972)
Total Accumulated Depreciation	<u>(3,050,371)</u>	<u>(158,997)</u>	<u>15,543</u>	<u>(3,193,825)</u>
Capital Assets, Net	<u>\$3,210,388</u>	<u>\$(21,980)</u>	<u>\$(50,972)</u>	<u>\$3,137,436</u>
<u>Business-Type Activities</u>				
Depreciation Expense:				
Water				\$ 54,005
Sewer				85,964
Sanitation				19,028
Total Depreciation Expense - Business-Type Activities				<u>\$ 158,997</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 - LONG-TERM DEBT

Governmental Activities

As of June 30, 2017, the governmental long-term debt of the financial reporting entity consisted of the following:

	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>
Kentucky League of Cities – 3.75% interest rate, maturity date – March 1, 2028	\$ 11,901	\$ 150,457	\$ 162,358
Kentucky Bond Corporation – 2.00%–4.00% variable interest rate, maturity date – February 1, 2041	55,000	1,940,000	1,995,000
Charles Ashby – 0% interest rate, maturity date – July 31, 2018 – real estate purchase	<u>75,000</u>	<u>100,000</u>	<u>175,000</u>
Total Long-Term Debt	<u>\$ 141,901</u>	<u>\$2,190,457</u>	<u>\$2,332,358</u>

Governmental activities include a note payable issued March 1, 2008, for the purchase of land for a park, a bonded lease agreement issued May 2, 2014 for the construction of an amphitheater, and a note issued June 29, 2017 for the purchase of buildings.

Business-type Activities

As of June 30, 2017, the long-term debt payable from proprietary fund resources consisted of the following:

	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>
Kentucky Infrastructure Authority – 1% interest rate, maturity date – June 1, 2028	<u>\$ 29,698</u>	<u>\$ 313,859</u>	<u>\$ 343,557</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Kentucky Bond Corporation	\$2,050,000	\$ -	\$55,000	\$1,995,000	\$ 55,000
Charles Ashby	-	175,000	-	175,000	75,000
Kentucky League of Cities	173,750	-	11,392	162,358	11,901
Net Pension Liability	506,911	43,030	-	549,941	-
Total	<u>\$2,730,661</u>	<u>\$218,030</u>	<u>\$66,392</u>	<u>\$2,882,299</u>	<u>\$141,901</u>
<u>Business-Type Activities</u>					
KY Infrastructure Authority	\$372,960	\$ -	\$29,403	\$343,557	\$29,698
Net Pension Liability	560,271	105,933	-	666,204	-
Total	<u>\$933,231</u>	<u>\$105,933</u>	<u>\$29,403</u>	<u>\$1,009,761</u>	<u>\$29,698</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Capital Lease Obligations

The City has entered into a capital lease agreement under which the related asset (amphitheater) will become the property of the City when all terms of the lease agreement are met. The interest rate varies from 2% to 4%. The schedule of future minimum lease payments on the capital lease as of June 30, 2017 is as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2018	\$ 121,781
2019	120,681
2020	124,581
2021	123,381
2022	121,581
Thereafter	<u>2,388,487</u>
Future Minimum Payments	3,000,492
Less Interest	<u>(1,005,492)</u>
Present Value of Future Minimum Payments	<u>\$1,995,000</u>

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

	<u>Governmental Activities</u>
Amphitheater	\$2,029,107
Less: accumulated depreciation	<u>(139,501)</u>
Net Value	<u>\$1,889,606</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2017, are as follows:

Governmental Activities

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 141,901	\$ 69,921	\$ 211,822
2018	167,448	68,578	236,026
2019	73,009	67,229	140,238
2020	73,626	65,753	139,379
2021	74,243	63,680	137,923
2022-2026	426,650	284,813	711,463
2027-2031	425,481	221,750	647,231
2032-2036	515,000	143,225	658,225
2037-2041	<u>435,000</u>	<u>39,700</u>	<u>474,700</u>
	<u>\$2,332,358</u>	<u>\$1,024,649</u>	<u>\$3,357,007</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 - LONG-TERM DEBT (CONCLUDED)

Business-type Activities

Fiscal Year Ending June 30,	Sewer Fund		
	Principal	Interest	Total
2018	\$ 29,698	\$ 3,362	\$ 33,060
2019	29,996	3,064	33,060
2020	30,297	2,763	33,060
2021	30,600	2,459	33,059
2022	30,907	2,153	33,060
2023-2027	159,246	6,053	165,299
2028	32,813	246	33,059
	<u>\$343,557</u>	<u>\$ 20,100</u>	<u>\$363,657</u>

NOTE 7 - 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 8 - 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 9 - RESTAURANT AND TRANSIENT ROOM TAX

Effective April 1, 2013, the City established The City of 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 state statute. The City receives 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 \$47,237 for taxes collected and accrued.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM

General Information about the County Employees Retirement System

Plan Description – Full-time employees are covered by the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the KRS website at www.kyret.ky.gov.

Benefits Provided – CERS provides retirement, health insurance, death, and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1 – Defined Benefit

Participation date:	Before September 1, 2008
Unreduced retirement:	27 years service or 65 years old with 4 years service
Reduced retirement:	At least 5 years service and 55 years old At least 25 years service and any age

Tier 2 – Defined Benefit

Participation date:	September 1, 2008 – December 31, 2013
Unreduced retirement:	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
Reduced retirement:	At least 10 years service and 60 years old

Tier 3 – Cash Balance

Participation date:	After December 31, 2013
Unreduced retirement:	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
Reduced retirement:	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and the hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Employees in all tiers contribute 5% of their salaries, and those in Tiers 2 and 3 also contribute an additional 1% of their salaries for insurance. Participating employers contributed 18.68% (13.95% pension, 4.73% insurance) of members' non-hazardous compensation for the year ended June 30, 2017.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$1,216,145 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the actual contributions of the City relative to the total contributions of all participating members of CERS during the measurement period July 1, 2015 through June 30, 2016. At June 30, 2016, the City's proportion was 0.0247%, an decrease of 0.0001% from its proportion measured at June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$173,656 for CERS. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,309	\$ -
Changes of assumptions	64,425	-
Net difference between projected and actual earnings on pension plan investments	114,330	-
Changes in proportion and differences between City contributions and proportionate share of contributions	14,042	3,233
City contributions subsequent to the measurement date	89,494	-
	<u>\$287,600</u>	<u>\$3,233</u>

\$89,494 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows related to pensions will be recognized in pension expense as follows:

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$76,720
2019	\$49,083
2020	\$43,553
2021	\$25,517

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation
Projected Salary Increases	4%, average, including inflation
Inflation Rate	3.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONCLUDED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-seven year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate – The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease 6.5%</u>	<u>Current Discount 7.5%</u>	<u>1% Increase 8.5%</u>
City's proportionate share of the net pension liability	\$1,515,514	\$1,216,145	\$959,527

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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.

NOTE 13 - 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	\$80,000	Operations

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	\$10,185	Payroll
Sanitation	Payroll	925	Payroll
Sewer	Payroll	2,595	Payroll
Water	Payroll	1,324	Payroll
Water	Sewer	319	Advance for operations
MRA	Payroll	577	Payroll
Payroll	Cemetery	1	Payroll

NOTE 14 - BUDGET VIOLATIONS

During the current fiscal year, the City's general fund incurred line item expenditures in excess of budget. The Cemetery Fund experienced a reduction in fund balance and the Sanitation Fund had a decline in net position for the fiscal year.

NOTE 15 - 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. For the fiscal year ended June 30, 2017, 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, members are responsible for payment of the excess losses. 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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 16 - 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.

NOTE 17 - 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 \$522,373 to the Commission during the current year for the restaurant and transient room taxes that were collected. The City received \$284,686 from the Tourism Commission for park maintenance and development, debt service reimbursements, and various capital projects.

Per Note 12, the City is a member of the Ohio County Regional Wastewater District (District). During the year ended June 30, 2017, the City paid the District \$681,839 for sewer disposal.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services	\$ 32,800	\$ 32,800	\$ 35,548	\$ 2,748
Interest income	2,000	2,000	4,496	2,496
Intergovernmental revenues	64,500	64,500	86,221	21,721
Licenses and permits	17,000	17,000	20,735	3,735
Miscellaneous revenues	10,000	10,000	8,965	(1,035)
Payments from component unit	150,000	150,000	284,686	134,686
Taxes	1,378,900	1,378,900	1,618,101	239,201
Total Revenues	<u>1,655,200</u>	<u>1,655,200</u>	<u>2,058,752</u>	<u>403,552</u>
Expenditures				
Current:				
Code enforcement	15,375	15,375	10,790	4,585
General government	301,350	301,350	248,591	52,759
Parks and recreation	137,385	137,385	64,861	72,524
Public safety:				
Fire	46,775	46,775	46,962	(187)
Police	496,850	496,850	449,984	46,866
Tourism-payment to component unit	477,000	477,000	522,373	(45,373)
Debt Service:				
Principal	12,000	12,000	66,392	(54,392)
Interest	1,400	1,400	70,651	(69,251)
Capital Outlay	-	-	325,375	(325,375)
Total Expenditures	<u>1,488,135</u>	<u>1,488,135</u>	<u>1,805,979</u>	<u>(317,844)</u>
Excess of Revenues over Expenditures	<u>167,065</u>	<u>167,065</u>	<u>252,773</u>	<u>85,708</u>
Other Financing Sources (Uses)				
Proceeds from issuance of debt	-	-	175,000	175,000
Operating transfers out	(172,750)	(172,750)	(80,000)	92,750
Total Other Financing Sources (Uses)	<u>(172,750)</u>	<u>(172,750)</u>	<u>95,000</u>	<u>267,750</u>
Net Changes in Fund Balance	(5,685)	(5,685)	347,773	353,458
Fund Balance - July 1, 2016	<u>1,243,036</u>	<u>1,243,036</u>	<u>1,243,036</u>	<u>-</u>
Fund Balance - June 30, 2017	<u>\$ 1,237,351</u>	<u>\$ 1,237,351</u>	<u>\$ 1,590,809</u>	<u>\$ 353,458</u>

See accompanying note to required supplementary information.

**CITY OF BEAVER DAM, KENTUCKY
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

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.

**CITY OF BEAVER DAM, KENTUCKY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY**

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
City's proportion of the net pension liability	0.023916%	0.024820%	0.024700%
City's proportionate share of the net pension liability	\$ 776,000	\$ 1,067,812	\$ 1,216,145
City's covered payroll	\$ 585,123	\$ 579,100	\$ 589,228
City's proportionate share of the net pension liability as a percentage of its covered payroll	132.62%	184.39%	206.40%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to pension schedules.

**CITY OF BEAVER DAM, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 74,107	\$ 70,175	\$ 89,494
Contributions in relation to the contractually required contribution	<u>(74,107)</u>	<u>(70,175)</u>	<u>(89,494)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 581,231	\$ 565,016	\$ 641,538
Contributions as a percentage of covered payroll	12.75%	12.42%	13.95%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to pension schedules.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO PENSION SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE 2 - CHANGES OF ASSUMPTIONS

The Board of Trustees for CERS adopted the following changes in assumptions, which were reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members was RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used was the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) was used for the period after disability retirement. There was some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

For the valuation performed as of June 30, 2016, there were no changes in assumptions for CERS.

NOTE 3 - RESTATEMENT

The contractually required contribution, contributions in relation to the contractually required contribution, and the contributions as a percentage of covered payroll were restated to reflect the portion of contributions related to pension only. The amounts reported in the prior year also included the health insurance component of the employer contribution.

SUPPLEMENTARY INFORMATION

CITY OF BEAVER DAM, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

	Special Revenue Funds				Total Nonmajor Funds
	Cemetery Fund	Community Pride Fund	LGEA Fund	MRA Fund	
Assets					
Interfund receivables	\$ 1	\$ -	\$ -	\$ -	\$ 1
Restricted cash	168,824	282	296,239	21,845	487,190
Investments - noncurrent	1,000	-	-	-	1,000
Total Assets	<u>\$ 169,825</u>	<u>\$ 282</u>	<u>\$296,239</u>	<u>\$ 21,845</u>	<u>\$ 488,191</u>
Liabilities					
Accounts payable	\$ 805	\$ -	\$ -	\$ 13,380	\$ 14,185
Accrued liabilities	469	-	-	2,157	2,626
Interfund payables	-	-	-	577	577
Total Liabilities	<u>1,274</u>	<u>-</u>	<u>-</u>	<u>16,114</u>	<u>17,388</u>
Fund Balance					
Restricted for:					
Cemetery maintenance	168,551	-	-	-	168,551
Economic assistance	-	-	296,239	-	296,239
Municipal roads	-	-	-	5,731	5,731
Assigned to community projects	-	282	-	-	282
Total Fund Balances	<u>168,551</u>	<u>282</u>	<u>296,239</u>	<u>5,731</u>	<u>470,803</u>
Total Liabilities and Fund Balances	<u>\$ 169,825</u>	<u>\$ 282</u>	<u>\$296,239</u>	<u>\$ 21,845</u>	<u>\$ 488,191</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, 2017

	<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>	
Revenues					
Charges for services	\$ 27,750	\$ 45	\$ -	\$ -	\$ 27,795
Interest income	971	-	272	15	1,258
Intergovernmental revenues	-	-	59,189	68,354	127,543
Miscellaneous revenue	3,050	40	-	618	3,708
Total Revenues	<u>31,771</u>	<u>85</u>	<u>59,461</u>	<u>68,987</u>	<u>160,304</u>
Expenditures					
Current:					
Cemetery	34,777	-	-	-	34,777
Streets	-	-	-	147,578	147,578
Capital Outlay	-	-	38,617	-	38,617
Total Expenditures	<u>34,777</u>	<u>-</u>	<u>38,617</u>	<u>147,578</u>	<u>220,972</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,006)	85	20,844	(78,591)	(60,668)
Other Financing Sources					
Operating transfers in	-	-	-	80,000	80,000
Net Change in Fund Balance	(3,006)	85	20,844	1,409	19,332
Fund Balance - July 1, 2016	<u>171,557</u>	<u>197</u>	<u>275,395</u>	<u>4,322</u>	<u>451,471</u>
Fund Balance - June 30, 2017	<u>\$ 168,551</u>	<u>\$ 282</u>	<u>\$ 296,239</u>	<u>\$ 5,731</u>	<u>\$ 470,803</u>

**CITY OF BEAVER DAM, KENTUCKY
SCHEDULE OF CHARGES FOR SERVICES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Fund Sanitation</u>	
Charges for Services:				
Water collections	\$ 570,174	\$ -	\$ -	\$ 570,174
Sewer collections	-	1,204,659	-	1,204,659
Sanitation collections	-	-	162,187	162,187
Public fire protection	9,090	-	-	9,090
Meter charges	10,050	-	-	10,050
Reconnect fees	17,120	-	-	17,120
Tapping charges	-	2,000	-	2,000
Lift station maintenance fee	-	14,400	-	14,400
Penalties	12,457	23,298	4,521	40,276
Aqualine billing	40,850	-	-	40,850
	<u>\$ 659,741</u>	<u>\$ 1,244,357</u>	<u>\$ 166,708</u>	<u>\$ 2,070,806</u>

INDEPENDENT AUDITOR'S REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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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

INDEPENDENT AUDITOR'S 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, the aggregate discretely presented component unit, 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, 2017, 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 18, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 17-1 and 17-2, that we consider to be material weaknesses.

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*.

City of Beaver Dam, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 18, 2018

**CITY OF BEAVER DAM, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Finding: 17-1 (Repeat)

Condition:	The Tourism Commission Clerk's responsibilities include the cash receipts and cash disbursement functions, collections and deposits, preparing bank reconciliations, and general accounting.
Criteria:	Inadequate segregation of duties is an example of a material weakness in the design of controls.
Cause:	Budgetary constraints allow only a limited office staff.
Effect:	Significant controls over transaction processing were absent.
Recommendation:	The Tourism Commission should utilize other City office staff members where possible to segregate incompatible duties.
Management Response:	<i>I still serve as Treasurer of the Tourism Commission and in such, receive a listing of each check written including who to, date, and for what purpose. I also receive a listing of each deposit that also includes where receipts were generated and date. This info is used to prepare a monthly report to the full Tourism Commission membership and is also provided to each member of the Beaver Dam City Commission. We also have additional oversight at this information is also provided to the Tourism Coordinator, a paid staff member of the City of Beaver Dam.</i>

Finding: 17-2 (Repeat)

Condition:	Limited support was provided for material Tourism Commission cash receipts and disbursements.
Criteria:	Effective internal controls require that cash receipts be processed with supporting documentation indicating the source and nature of the transaction and cash disbursements be made only from approved original vendor invoices supported by a purchase order and receiving report if applicable.
Cause:	The system in place does not specify adequate supporting documentation to properly account for cash received and disbursed.
Effect:	Financial statement amounts may be misstated. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws, and mismanagement of funds.
Recommendation:	A purchase order system should be initiated to approve purchases in advance where possible. Cash disbursements should be paid only from a vendor invoice and proof of receipt. Controls should be established to support all special event receipts.
Management Response:	<i>We have in place a process where a PO is prepared to match up with each check number written from the check book and attached to a receipt. Every effort is made to also attach a copy of the written check but due to the nature of enterprise, some checks are actually written on-sight with no capabilities of producing a copy. Again, a listing of disbursements is reviewed by the Tourism commission Treasurer and Tourism Coordinator and a monthly report listing each check disbursed individually is provided to each member of the Tourism Commission and each member of the Beaver Dam City Commission.</i> <i>On the receipt side, each deposit ticket list the origin of the receipt. The Commission has changed its policy on concert ticket sales with the plan for all sales in 2018 to be made either on-line or through a computerized "box office" type system that will be located at City Hall and possibly one other location. The commission will no longer allow the sale of concert tickets at individual business locations. In the case where tickets are still available on show day, sales will still be made on-sight through the computerized "box office." The Coordinator also has to provide an accounting for ticket sales to the management teams of most of the performers prior to the performer taking the stage as most all shows now receive a guaranteed fee or a percentage of the ticket sales therefore additional receipt documentation is required.</i>